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GROWING AND DECLINING URBAN AREAS: A FISCAL COMPARISON

Thomas Muller

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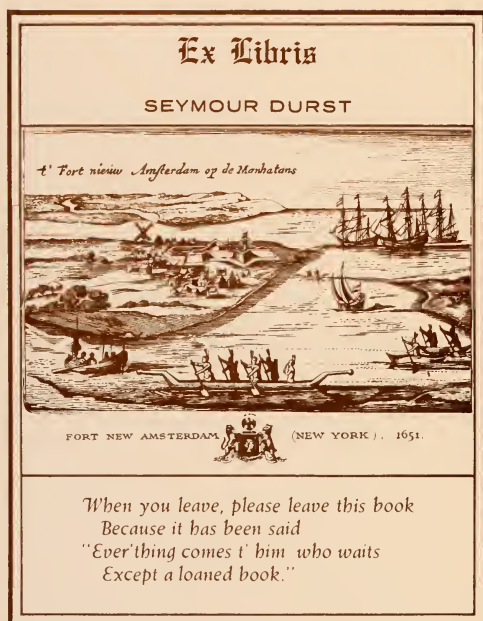
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August 1975

Revised November 1975



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WASHINGTON, D.C.

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U.I. 0001-02
ISBN 87766-154-5

Available from:

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PREFACE AND ACKNOWLEDGEMENTS

The fiscal crisis in New York City, economic problems facing other jurisdictions, and the rejection by voters of most bond issues in various parts of the nation, in response to fiscal concerns, rank among the most significant economic and political events of 1975.

Despite the recent prominence given the subject by the media and public officials, there is little understanding of fundamental causes for differences found in the fiscal position among urban areas, and particularly among larger central cities.

The author hopes that this report, by identifying some of the economic and other factors which have resulted in substantial fiscal disparities, will improve our understanding of an issue which has repercussions beyond the political boundaries of large cities.

While many individuals contributed valuable comments, the author wishes to explicitly acknowledge the insight of George S. Sternleib, Director of the Center for Urban Policy Research at Rutgers University, who sponsored a conference in March 1975 on aging urban areas and invited the author to present an earlier and more modest version of this paper originally titled, "Fiscal Issues in The Aging Metropolis."

William Gorham, President of The Urban Institute, urged the author to expand the paper and made many useful suggestions. Robert Harris, Senior Vice-President of The Urban Institute, provided first hand knowledge of big city government which formed the basis for a discussion of adverse effects which can result from a reduction of municipal employment. Finally, the editorial help of our publication staff, and the secretarial assistance of Donna Hederman and Carl Wilson is greatly appreciated.



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NOTE TO READERS

USE OF TERMS

Identifying geographical and regional sectors of the country poses some difficulty because various sources of basic data fail to rely on common boundaries or territorial definitions in organizing their information. This note should help the reader understand the geographic terms used in this paper.

Regions spelled with a capital. Much of the data for this study were taken from the U.S. Census Bureau's Social and Economic Statistics Administration reports. Thus, most of the nonmenclature and capitalization in this paper follow the definitions and terminology of that agency, as shown in Figure 1--Regions and Geographic Divisions of the United States.

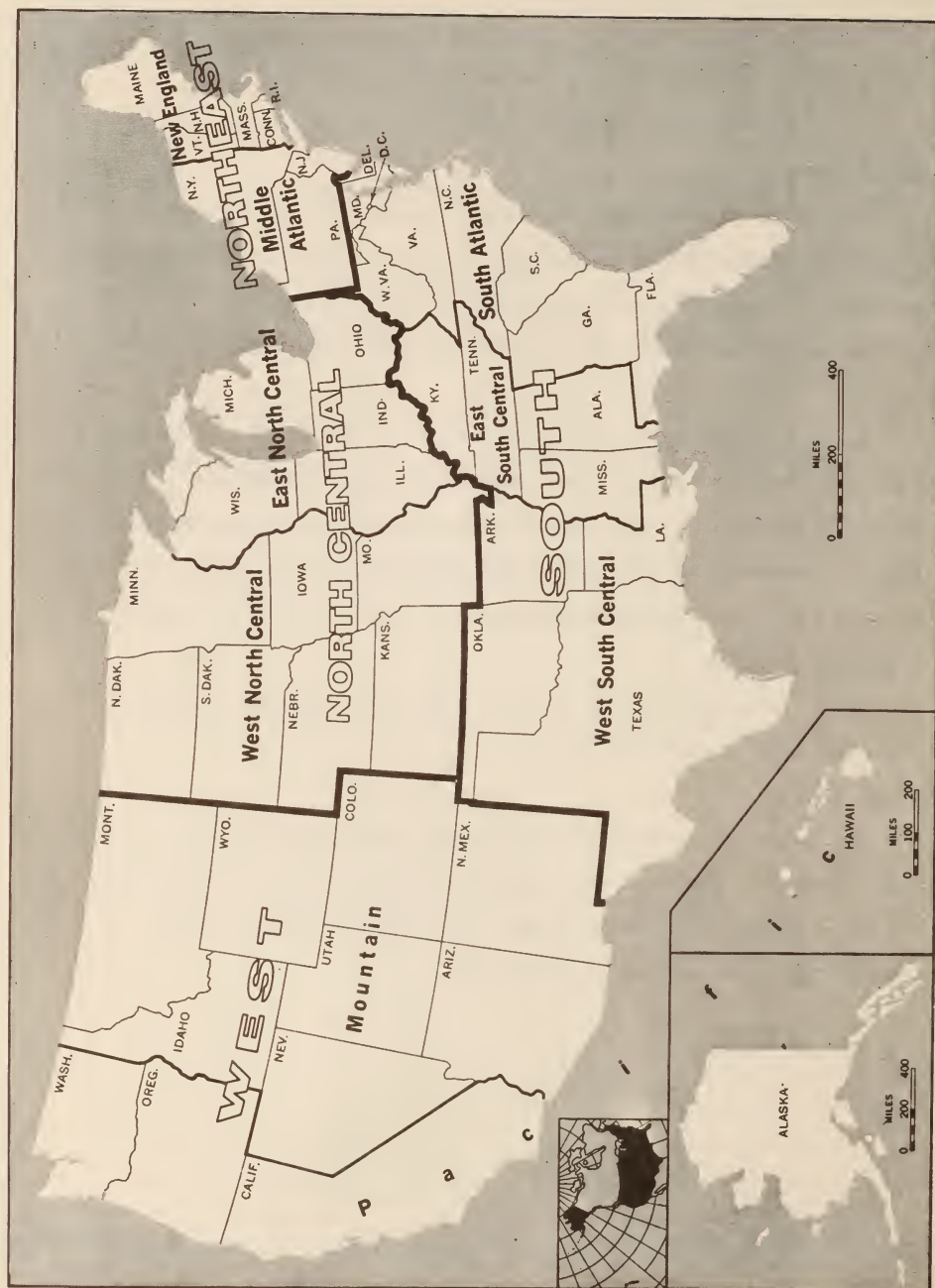
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Number in brackets within the text refer to bibliographic references and notes shown in pages 119 and 121.

FISCAL YEAR

The fiscal year used by the U.S. Census Bureau begins on July 1 and ends of June 30. Municipal wage and employee data are usually collected by the agency during the month of October. Thus, payroll information for October 1974 are identified as fiscal 1975.

Regions and Geographic Divisions of the United States



I. INTRODUCTION

Interest in the fiscal effects of new development has led to a proliferation of studies, focusing primarily on growing suburban areas [1]. No general consensus has emerged on costs and benefits to the public sector resulting from development, but some findings are fairly consistent. For example, new households require greater outlays for services and provide more revenue to local government than do existing residents. In part because of diseconomies of scale for some services, per capita outlays for public services tend to rise as population expands.

The economic and other implications of growth are frequently discussed, but an increasing number of metropolitan areas are facing the opposite problem, as central cities and their inner suburbs experience population losses. Although urban outmigration is not a new phenomenon, the drop in the birth rate means that natural increases no longer can offset the losses. Annual population growth, which includes migration from other counties, appears to be stabilizing at about 0.8 percent. The pattern of migration in the early 1970s indicates that one can expect almost as many larger cities to lose as to gain population during this decade.

In view of these trends, we must divert some of our attention from growth problems to fiscal concerns and other issues facing cities, metropolitan areas and regions with substantial net outmigration. As noted by William Alonso, "We know virtually nothing about the problems of decline in large urban areas, except that it is clear that they are not symmetric to the problems of growth [2]. Since our knowledge of both causes and effects of urban decline

is limited, this report examines to what extent interregional migration, constraints on boundary expansion by central cities and related factors contribute to the economic problems evident in many declining urban areas.

An analysis appears particularly pertinent at a time when widely publicized fiscal problems are facing older cities, aggravated by revenue decline attributable to the most severe economic downturn in recent decades, have become a major national concern.

An "aging" area can be defined in either physical or demographic terms. In physical terms, it refers to areas which had a major proportion of their housing built prior to 1940. This paper defines aging or declining areas in terms of changes in population. Metropolitan areas experiencing substantial outmigration, usually by young, middle-income households, are described as aging. Similarly, cities which in recent years experienced an absolute population loss are defined as declining, those with gains in population as growing.

This paper examines some fiscal implications of recent regional and metropolitan migration patterns, including relative changes in personal income and private employment in urban areas. The paper compares outlays for public services in metropolitan areas and jurisdictions of various sizes, and in large cities that are growing and declining. These comparisons are made to determine if significant variations can be identified in service demand, the level of public employment, and wages for municipal workers. Revenue changes in growing and declining cities are also compared.

The results of this analysis are the basis for conclusions about the causes for fiscal differences between growing and declining cities, and about the fiscal prospects of the aging metropolis.

II. CHANGES AT THE REGIONAL AND METROPOLITAN LEVELS

RECENT MIGRATION PATTERNS AND THEIR EFFECTS

The trend observed in the first half of the 1970s is that of a considerable movement of households from the older, high-density urban areas of the Middle Atlantic and East North Central states to other regions of the country. Between 1973 and 1974, Illinois, Pennsylvania, and Ohio lost population, and thus joined New York, which has been experiencing decline since 1970.^{1/} If this pattern continues, it will mark the first decade in this century that any of these states, or the Middle Atlantic region collectively, has experienced a decline in population.

Outmigration is taking place from all East North Central states, with the exception of Wisconsin. This movement is reflected in metropolitan area data. Eight of the ten Standard Metropolitan Statistical Areas (SMSAs) in Pennsylvania also have been losing residents in recent years. Outmigration from core cities and inner suburbs, however, no longer is confined to older urban areas. The Los Angeles SMSA is losing population, and more people are leaving than entering the San Francisco and Dallas metropolitan areas.

The outmigration from the urbanized regions is in two directions, into exurban areas (beyond suburbs) and into other regions. While some of the exurban growth is in the direction of adjoining states, the major movement appears to be into states of the South Atlantic, West, South Central, and

^{1/} Two other states, Rhode Island and Iowa, also lost population between 1973 and 1974.

Mountain regions. Yet only a few years ago all but two of the Mountain states--Colorado and Nevada--had the opposite situation--outmigration. Similar reversals in the direction of migration between the 1960s and early 1970s are now evident in the increased population of such diverse locations as Arkansas, the Carolinas, Idaho, and Montana.

Metropolitan migration patterns are shown in Table 1. In the 1960s, there was substantial outmigration from central cities. High birth rates and annexation however, prevented an absolute population loss. Between 1960 and 1970, central cities expanded their land area by 35 percent through annexation. About 99 percent of the central city population gain during the decade was in the annexed areas.

This pattern changed between 1970 and 1975, when outmigration from central cities accelerated to 1.4 million annually, or about 7 million persons during the five-year period. Between 1970 and 1974, central cities annexed areas which included about 0.6 million persons, while natural increases (births over deaths) added about 2.8 million residents to central cities. Another two million persons are accounted for by international immigration to central cities during the five-year period. The absolute decline in population between 1970 and 1975 based on 1974 city boundaries was about 1.5 million [3].

Three states, New York, Illinois, and Ohio, had a net outmigration of about one million persons between 1970 and 1974, while the coastal states between Virginia and Florida gained about 1.8 million migrants, primarily from the Northeastern and North Central states.

From a fiscal perspective, migration is important because it affects personal income, employment, and demographic characteristics, which in turn affect the ability of the local population to pay for public services. For example, if migrating households consist primarily of people too young or

TABLE 1
NET METROPOLITAN MIGRATION 1960-1975^a

Area	1960-1970	1970-1975 ^b
Central Cities	-3,449,000	-7,018,000 ^c
Suburbs	+8,756,000	+5,423,000
Total metropolitan area ^b	+5,307,000	-1,595,000
Annual migration flow rate: central cities	- 344,900	-1,403,600

a. Population five years old and over. Immigration from outside the United States excluded.

b. 1970 SMSA and city boundaries.

c. Between 1970 and 1975, 5.9 million persons moved from cities to suburbs and 1.1 million from cities to nonmetropolitan areas.

SOURCES: Bureau of the Census, Mobility of the Population of the United States: March 1970-March 1975, October 1975; and Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population: 1974 and 1970, September 1975. Also, unpublished data, Bureau of the Census (based on summing net flows for individual SMSAs from 1970 Census of Population).

too old to work or those with little education or few skills, the areas they leave will suffer a minimum of adverse economic effects. However, various studies of migrants during the 1960s, substantiated by recently tabulated data on the characteristics of migrants in the early 1970s, indicate this is not the case. Those moving beyond the metropolitan area are better educated and more likely to be professional workers than those not migrating. [4].

At the state level, the data show a positive correlation between migration flows and the rate of change in per capita income. Between 1970 and 1973, per capita income increased only 21 percent in the state of New York, 24 percent in Connecticut, and 26 percent in Pennsylvania, all net outmigration states. On the other hand, per capita income increased by 35 percent in Idaho and Wyoming, and 39 percent in Arkansas, all net immigration states.^{2/} In the recessionary 1974-75 time period income growth, continuing the pattern of earlier years, was less rapid in the Northeast and North Central areas than in the South and West.

FACTORS CONTRIBUTING TO INTERREGIONAL MIGRATION

Four factors contributing to changes in income growth and employment which in turn can lead to migration, are outlays for energy, a decreased level of manufacturing activity in a number of states, large federal payrolls in growing regions and changes in the price of agricultural products.

The sharp rise in the cost of energy sources-coal, natural gas, oil and uranium-as well as the expansion of capital investment to increase the domestic supply of these products has increased personal income in some states.

^{2/} Lowest per capita income growth in the nation between 1969 and 1972 was recorded in the states of New York, Connecticut, Ohio, and Washington.

Income in Wyoming and Alaska in 1975 grew at four times the national rate; income growth also has been substantial in Texas, Oklahoma, and West Virginia, much of it attributable to higher energy prices.

The sharp rise in the cost of energy is likely to encourage a further movement of households and jobs from aging areas (which already experience an above-average cost of living) to energy-rich states such as Colorado, Texas, and Wyoming. West Virginia had more households immigrating than outmigrating during 1974 because of the secondary effects of higher prices for coal. This development reversed a pattern which began in the 1920s.

Regional differentials in the cost of energy are illustrated by monthly bills for similar quantities of electricity. During 1974, consumers in the New York region paid 170 percent more than consumers in the Houston area for the same amount of electricity. The cost of other energy, such as oil and also is lower in the southwest than in the northeast. Perhaps equally important, the supply of energy is more assured when it is closer to the sources of production.

Higher fuel costs in northern states are increasing regional cost-of-living differentials. It is probably more than mere chance that the five urban areas with the highest cost of living in 1973 all experienced net out-migration (totaling 372,000 persons between 1970 and 1973), while four of the five MSSAs with the lowest cost of living had net immigration (totaling 173,000 persons during the same interval).

Employment losses in Northeastern and East North Central states are concentrated in manufacturing, in part attributable to aging capital stock and possibly high labor costs. These losses constitute the second factor affecting interregional migration.

During 1969, military and civilian federal payrolls accounted for 12 percent of all personal income in the five most rapidly growing states, but only 3 percent in the five states with the largest absolute outmigration, including New York and Ohio. Between 1969 and 1973, federal payrolls in the growing states increased by 41 percent, but by only 30 percent in the declining states, thereby intensifying the differential.

Welfare, social security, and other public transfer payments in 1969 were a higher percentage of income and expanded more rapidly between 1969 and 1973 in growing states than in those defined as aging. The value of military contracts in 1972 was \$134 per capita in the Northeastern and East North Central states, but \$196 in the balance of the nation. Some of these regional federal expenditures imply more employment opportunities at above average wages and thus are a form of income redistribution to growing states via the federal tax structure; the differentials thus contributing to the observed migration patterns.

The cost of food products since 1971 have risen more rapidly than other goods and services with the exception of fuel. Higher prices for food increased farm income in West North Central states from \$5 billion in 1971 to \$13 billion in 1973. Higher income probably reduced outmigration from agricultural areas of these states. During 1974, states with large agricultural sectors showed little income growth, primarily because of the decline in livestock prices. However, by May 1975, Kansas, Minnesota, and North Dakota had above-average income gains, reflecting the upturn in agricultural prices. ^{3/}

^{3/} Agricultural exports and fuel imports have an offsetting impact nationally, but a differential impact on regional income and cost of living.

In addition to factors already noted, the milder climate in southern and western states is attracting both young and retired households.

METROPOLITAN POPULATION CHANGES RESULTING FROM MIGRATION--TWO EXAMPLES

Net outmigration from older urban regions to expanding metropolitan and nonmetropolitan centers has a substantial impact on both the public and private local economy. In assessing migration effects, it is important to note that migrants to and from the same metropolitan area have similar but not identical characteristics. Migrants are younger, more likely to be in a professional occupation, more educated, and are more likely to have higher lifetime incomes than nonmigrants. Net changes in population characteristics of a particular SMSA thus would appear to depend on the rates of migration to and from it. If outmigration tends to lower a region's average income and vice versa, one would expect this to be evident in the northeastern metropolitan areas that are losing population and the southern SMSAs that are gaining it.

To test this hypothesis, the impact of migration is tested in two urban centers--Houston and Pittsburgh. Houston is typical of the growing areas in the Southwest which have personal income levels below the national average. Pittsburgh is the only large SMSA which lost population in the 1960s.

In Houston, only 14.9 percent of household members who already resided in the SMSA prior to 1965 had household incomes in 1970 of \$15,000 or more, slightly below the urban average. ^{4/} However, among household members who

^{4/} Although Houston benefited from an increase in federal payrolls as a result of the expansion in the space program in the 1960s, earnings from government in 1970 represented only 7.8 percent of all personal income, compared to a national average of 16.7 percent in all SMSAs.

were immigrants between 1965 and 1970, 30.2 percent had 1970 incomes at that level. The proportion of families in this higher-income group within the SMSA was 14 percent more in 1970 than it would have been had no net immigration taken place during the preceding five-year period.

The impact on education levels and professional occupations also was pronounced. Among Houston SMSA residents over 25 years old who did not immigrate in the previous five years, only 12.2 percent had four or more years of college in 1970. More than 30 percent of immigrants achieved this level of education, increasing the proportion of persons in the college-educated group to 14.5 percent of the total population by 1970. The migrants to Houston with above-average incomes, education levels, and occupational skills came primarily from other urban areas, such as the Pittsburgh SMSA, the only metropolitan area with one million or more residents which lost population in the 1960s [5].

Net outmigration from the Pittsburgh region caused the number of households earning \$15,000 or more to decrease by about 10,000 between 1965 and 1970. The proportion of families in this income group also was reduced by 14 percent, since 25 percent of outmigrants had incomes of \$15,000 or more, in comparison to only 18 percent of all Pittsburgh SMSA households. Although outmigrants included persons in all age categories, their median age was 24, slightly lower than the age of immigrants, while the median age of the non-moving population was 35. The net outflow of younger persons thus increased the average age of the remaining population.

The actual flow of households from the Pittsburgh to the Houston SMSA represents only a minor share of all migration into and out of these areas. It is significant, however, that while Pittsburgh is the more populous of the two, for every five persons moving from there to Houston, only one moved in the reverse direction [6].

This 1965-1970 pattern appears to be continuing. In the 1970s per capita income continues to grow at a substantially higher rate in Houston than in the older urban areas of the Northeast, and net outmigration from Pittsburgh is continuing at the 1960s rate.

FISCAL IMPLICATIONS OF POPULATION SHIFTS IN AGING URBAN AREAS

Growing urban areas require an expanded infrastructure, particularly roads, utilities, and schools, to accommodate new population and industry. The incremental cost to provide some capital-intensive services, such as roads, increases as population expands. The cost of expanding a road network, for instance, is considerably greater on a per capita basis in a large metropolitan area compared to a smaller one [7]. Unfortunately, economies of scale for most capital-intensive and labor-intensive services are no longer present when a jurisdiction grows beyond 50,000 to 100,000 in population.

As shown in Table 2, large metropolitan areas in the 1970s are more likely to have net outmigration than small ones; for example, the five largest SMSAs had fewer residents in 1974 than in 1970. Nationally, only three out of ten of the nation's 265 SMSAs show net outmigration between 1970 and 1974 but, in the case of SMSAs with a million or more residents, this ratio jumps to two out of three.

The combination of outmigration and the general economic slowdown during 1974 had a considerable adverse fiscal impact on urban states in aging regions. Nationally, state revenue in 1974 increased by 9 percent. However, the increase in New York and Ohio was only 4 percent while Texas increased its revenue by 17 percent, Colorado 20 percent, and Florida 13 percent.

Most jurisdictions in the States of New York, Ohio, and Pennsylvania also experienced lower revenue growth in 1974 than in each of the previous two years.

Higher operating costs found in large SMSAs, shown in Table 2, are primarily attributable to more local (municipal and county) employees and the wages paid to these employees.^{5/} The combination of these two factors, shown in Tables 2 and 3, explains most of the difference in per capita outlays. For example, in 1973, SMSAs with one to two million residents spent only \$422 on a per capita basis for local services compared to \$748 spent by the largest metropolitan area. Metropolitan areas with an average population of 626,000 spent half as much per capita for local services as the largest urbanized area; this differential primarily results from having about one-third fewer public employees (per capita). Also, the wages of the latter group are only 72 percent of their counterparts' salaries in the largest area.

While the average cost of providing similar public services rises as a metropolitan area increases its population because of these higher outlays for personnel, growing areas also have above-average gains in personal income, increasing their ability to pay for public services. If high employment rates and real income growth rates can be maintained by attracting employers who pay above-average wages, a fiscal balance can result without necessarily increasing tax burdens. In fact, many rapidly growing SMSAs have private employment rate increases exceeding the growth of their adult population, which contributes to higher labor participation rates and above-average personal income growth.

The largest metropolitan areas, most of which are experiencing net out-migration during the 1970s, have more serious problems.^{6/} As shown in Table 2,

^{5/} Welfare workers are excluded from these computations because, in many areas, such as Arizona, Michigan, and Texas, they are not municipal employees.

^{6/} The Washington SMSA, an area which continues to attract immigrants, is excluded from the table because it provides services that are typically the function of local and state government, and because it levies both local and state-type taxes.

TABLE 2

PER CAPITA OUTLAYS FOR LOCAL SERVICES
AND PER CAPITA INCOME FOR SMSA CATEGORIES

	Population Category (1965)						0.4 to 0.7 Million
	9 Million and Over	4 to 9 Million	2 to 4 ^b Million	1 to 2 Million	0.7 to 1 Million	0.4 to 0.7 Million	
Total number of SMSAs surveyed	1	4	5	10 ^c	9 ^c	12 ^d	
Number with outmigration, 1970-1973	1	4	5	4	3	5	
Number with loss in population, 1970-1973	1	4	3	3	1	0	
Per capital outlays for local services: ^e							
Fiscal year 1965-66	\$327	228	217	206	199	N/A	
Fiscal year 1972-73	\$748	493	465	422	372	362	
Percentage increase, Fiscal 1965-66 to 1972-73	129%	116%	112%	105%	87%	N/A	
Per capita income, 1973	\$6,209	5,925	5,525	5,248	5,046	5,125	
Fiscal 1973 operating outlays as percentage of 1973 aggregate personal income	12.0%	8.3%	8.3%	8.0%	7.4%	7.1%	
Total annual percentage of income growth, 1969-1973	5.8%	7.3%	7.2%	8.4%	9.2%	9.2%	

a. SMSA boundary definition as of 1973.

b. Excludes Washington, D.C. SMSA.

c. Sample of all SMSAs in population category. Sample includes all SMSAs in these categories for which data were tabulated by Census in 1965-1966.

d. Sample of counties in population category. Includes all counties in population category tabulated by Census for 1972-1973.

e. Current direct expenditures, including debt service. Welfare costs excluded.

SOURCES: U.S. Department of Commerce, Survey of Current Business, April 1975.

U.S. Bureau of Census, Local Government Services in Selected Metropolitan Areas in 1965-66, 1972-73, 1967 and 1974.

U.S. Bureau of the Census, Population Estimates and Projections, P-25, December 1974.

these areas have more rapid rates of expenditure increases than smaller metropolitan areas, most of which are gaining residents. The New York SMSA had the most striking increase in outlays for services other than welfare--a 129 percent rise between 1965-66 and 1972-73.^{7/} By comparison, the smaller SMSAs (0.7 to 1 million) increased their outlays by only 87 percent during the same time interval.^{8/}

Some have argued that higher personal income in large SMSAs compensates for higher rents and higher taxes to pay for local services [8]. This contention is not supported by the data shown in Tables 2 and 3. Although large metropolitan areas have the highest per capita income, their rate of public service cost increases has been above the urban average, and their rate of income gains has been below average. The nation's largest urban areas, New York and Los Angeles, had an annual income growth of 5.8 and 6.5 percent respectively between 1969 and 1973, while all other SMSAs in the nation had a per capita growth rate of 8.7 percent. Meanwhile nonmetropolitan areas showed the greatest increase during this period, a rate of 11.1 percent annually.^{9/} The cost of local services (see Table 2) is equal to 12 percent of personal income in the largest SMSA, declining to 7 percent in the smaller SMSAs.^{10/}

^{7/} These calculations are based on the revised (1972) SMSA boundary definition. Calculations based on the earlier SMSA definition do not differ substantially in terms of outlays per capita or personal income.

^{8/} Between 1965 and 1972 aggregate personal income within SMSAs increased by 74 percent. Per capita income growth, however, is substantially lower than this percentage due to population growth within metropolitan boundaries [9].

^{9/} Between 1973 and 1974, per capita income growth averaged 10 percent in metropolitan areas, 17 percent in nonmetropolitan areas.

^{10/} Local outlays do not necessarily represent actual payments by resident households. Some funds are intergovernmental transfers, other than welfare payments; some taxes are shifted to residents outside the SMSA, while others are imported from other areas.

TABLE 3
LOCAL GOVERNMENT EMPLOYEES AND THEIR WAGES FOR
SELECTED SMSAs, GROUPED BY POPULATION

	Population Category (1965)							
	9 Million and Over	4 to 9 Million	2 to 4 Million	1 to 2 Million	0.7 to 1.0 Million	0.4 to 0.7 Million		
Total number of SMSAs	1	4	5	10 ^b	9 ^b	12 ^b		
Number of SMSAs with outmigration, 1970-1973	1	4	5	4	3	5		
Number with absolute population loss, 1970-1973	1	4	3	3	1	0		
Average population, 1972 (in thousands)	9,881	5,860	2,677	1,510	996	626		
Average number full-time employees, fiscal 1973 (in thousands) ^c	420	187	85	47	28	17		
Employees per 1,000 residents, fiscal 1973	42.5	31.9	31.8	31.1	28.1	27.2		
Average wage per month, all employees, fiscal 1973	\$1,014	\$974	\$819	\$749	\$750	\$729		
Personnel cost index ^d	431	311	260	233	211	198		

- a. SMSA boundary definition as of 1972.
b. Sample of all SMSAs in category.
c. Excludes welfare workers.
d. Employees per thousand times monthly wages.

SOURCES: U.S. Bureau of the Census, Local Government Employment in Selected Metropolitan Areas and Large Counties: 1972, November 1973.
U.S. Bureau of the Census, Population Estimates and Projections, P-25, December 1974.

Among SMSAs with central cities of 500,000 or more residents, those experiencing net immigration averaged a 25 percent increase in per capita income between 1969 and 1972. The three large SMSAs in this population group with the most rapid influx of new residents--Denver, Phoenix, and San Diego--show a 31 percent increase in per capita income, while large areas experiencing net outmigration had only a 19 percent rise during this period. This strongly suggests that SMSAs with outmigration, following the pattern of states, have per capita income growth levels below the national average.

Wealth, as measured in per capita property value, is also shifting to southern and, to a lesser degree, western states. In 1961, per capita taxable assessed property value in SMSAs of the Northeast and North Central states averaged about \$2,330, compared to only \$1,700 in the South and West. By 1971, that gap had narrowed substantially. The Northeast and North Central states increased their property value in the decade by 56 percent to \$3,640 per capita, while the other states doubled their property value to \$3,400.^{11/} Based on regional levels of construction activity since 1971, the trend of the 1960s is no doubt continuing.

PRIVATE AND PUBLIC SECTOR EMPLOYMENT AND WAGES

Private employment losses also accompany outmigration. Most large SMSAs with substantial net outmigration, such as Cleveland, Philadelphia, Pittsburgh, and St. Louis, had fewer private jobs in 1973 than in 1970. The Cleveland SMSA, for example, had an employment decline of 2.3 percent during this interval,

^{11/} Changes in assessment practices may have contributed to differences in assessed property values among states between 1961 and 1971.

while national private employment expanded by 8.7 percent. ^{12/}

As shown in Table 4, the rates of employment gains in growing SMSAs (Denver, Phoenix) are roughly twice their rates of gain in SMSA population. About 2.5 to 3.5 percent of the total percentage gains in population shown in the table is attributable to natural increase and the balance to immigration. For example, of San Diego's 8.6 percent increase in population, 5.3 percent is due to immigration. Since immigrants are more likely to be in the labor force than those residing in the area previously, it is not surprising that growing areas have employment gains exceeding the national average. As might be expected, the three SMSAs shown as losing jobs also registered unemployment rates above the national average. ^{13/}

Migration affects the proportion of the population most likely to be employed. In 1973, the proportion of the population between the ages of 18 and 44 constituted 36.5 percent of the total population of New York State and 40.3 percent of Colorado.

In SMSAs shown to have a decline in private jobs, public employment increased. However, the reduction in private employment was not offset by the increase in the municipal work force. For example, the Cleveland SMSA

^{12/} Private employment data shown in this table is based on county and state statistics from the Bureau of the Census, County Business Patterns. Private-sector wages shown later are based on quarterly taxable payrolls covered by Social Security between January and March of 1970 and 1973. State and local government employment increased nationally by 12.2 percent during this interval, while unemployment was 4.9 percent in both 1970 and 1973.

^{13/} Loss of employment in both the Buffalo and New York SMSAs and only minimal employment gains in other areas of the state resulted in a loss of 224,000 private jobs in New York state. Massachusetts and Pennsylvania increased private jobs by only about 1 percent between 1970 and 1973.

TABLE 4

CHANGE IN POPULATION AND PRIVATE EMPLOYMENT,
SELECTED CITIES, COUNTIES, AND SMSAs, 1970-1973

Central City-County and SMSA	Percentage Change in Population		Percentage Change in Employment	
	City	SMSA	City	SMSA
Baltimore	-3.1	2.8	-0.3	3.6
Cleveland (Cuyahoga County)	-4.3	-3.2	-3.6	-2.3
Dallas (Dallas County)	2.6	3.7	12.9	13.7
Denver	0.2	11.1	17.1	24.9
Houston (Harris County)	6.8	8.2	21.2	21.2
Phoenix	8.5	16.2	N/A	26.4
Memphis (Shelby County)	2.1	3.5	17.9	17.8
New York City	-3.7	-3.0	-7.2	-5.8
Philadelphia	-3.5	-1.8	-6.3	-0.9
San Diego	8.6	8.2	N/A	13.3
San Francisco	-3.8	0.9	-1.3	2.0
Nation total*	2.7		8.7	

* The national unemployment rate showed no change, holding at 4.9 percent in 1970 and 1973.

SOURCE: Bureau of the Census, County Business Patterns; Bureau of the Census Population Estimates and Projections, P-25 and P-26 Series, 1974 and 1975.

lost 17,000 private jobs between 1970 and 1973, while the number of municipal workers increased by only 3,000. And in the Buffalo SMSA, where approximately 4,000 private jobs disappeared, the public work force was expanded by only 2,000.

While wages for municipal employees, as shown in Table 3, vary considerably between large and smaller SMSAs, private wages show less difference. Monthly municipal wages in the New York SMSA in fiscal 1973 were 39 percent higher than SMSAs in the 400,000 to 700,000 population group. In early 1973, in the private sector, monthly wages varied from \$799 in New York to \$667 in the smaller SMSAs, or half the gap in wages of public employees. Differences in public employee wages within SMSAs also show substantial variation, as discussed in Appendix A.

In most metropolitan areas the differences in wages between the local public and private sector increased during the late 1960s and early 1970s. Public sector wages are the highest, compared to those paid by private enterprises in the central city of most metropolitan regions, with wage disparities the least in communities on the perimeter of the urbanized area.^{14/}

^{14/} Wage differences between the public and private sector are concentrated in regions outside the South. In many southern metropolitan areas, public and private wages do not show substantial variation.

III. CITY SIZE, SERVICE COSTS, AND REVENUES

As was shown in the preceding chapter, the per capita cost of local public services increases as the population of the metropolitan area increases. Because personal income does not rise as rapidly as the cost of providing services, the share of income allocated for local services is also higher in the larger SMSAs.

This section examines the cost of services at the city level as a function of population size and as a percentage of income between 1950 and the early 1970s.

DIFFERENCES IN OUTLAYS AS A FUNCTION OF CITY SIZE

In the two decades, per capita spending by cities to provide public services has risen substantially. The larger the cities, the greater the rate of increase.

The per capita cost of providing basic city services, such as police, fire, sanitation, parks and recreation, has risen from \$35 in 1950 to \$162 in fiscal 1973, a factor of 4.6. However, this comparison does not take into account inflation. Adjusting for that fact, cost have increased by a factor of 2.4. Thus, inflation explains almost half the per capita increase in service cost.

In addition to inflation, the scope of some local services has risen because of economic changes, such as an increase in the number of private automobiles per household, which requires more personnel for traffic control. Further, the increase in the number of local, state, and federal programs creates a need for additional staff to coordinate and monitor new public sector

activities. Other factors include wage increases, discussed in subsequent parts of this report.

Although large cities generally spent more for local services than did smaller cities in 1950, outlays in a number of very large cities were close to the \$35 per capita average of all cities. Chicago, for example, spent \$31, while Buffalo, Los Angeles, Pittsburgh, and St. Louis had outlays close to the \$35 average.

Between 1950 and fiscal 1965, a space of fifteen years, per capita outlays in constant dollars increased by about 59 percent. In the following eight years, they again increased by 56 percent, or an annual rate almost ^{1/} twice the previous fifteen years.

The comparisons that follow reveal how the gap in outlays between larger and smaller cities increased between fiscal 1965 and 1973.

Per capita operating outlays for services generally provided by local governments in fiscal 1965 varied from \$53 in cities with fewer than 50,000 persons to \$117 in cities with a million or more residents (see Table 5). In the following eight years, outlays in all cities increased by 115 percent. However, the rate of increase varied considerably by city size. Per capita outlays of cities in the 50,000 to 100,000 category had only an 75 percent increase, while all cities with more than 200,000 residents increased their outlays by an average of about 137 percent.

While the average increase for services in cities between fiscal 1965 and 1973 increased by 115 percent, the cost of police services increased by 120 percent and debt service by 160 percent.

^{1/} In subsequent sections of this report, cost and wage data are not adjusted for inflation.

TABLE 5
PER CAPITA COST OF LOCAL SERVICES, FISCAL 1965 AND FISCAL 1973

SERVICES	CITY SIZES						
	All Cities	1 Million or More ^a	500,000-1 Million ^a	300,000-500,000 ^b	200,000-300,000 ^b	100,000-200,000 ^b	Less than 50,000 ^b
1964-65							
All services ^c	\$ 72	\$117	\$ 96	\$ 76	\$ 78	\$ 77	\$ 53
Police	15	29	20	16	15	14	9
Interest on debt	5	11	7	6	6	5	3
1972-73							
All services ^c	155	281	233	176	180	159	100
Police	33	65	48	34	33	30	23
Interest on debt	13	33	16	18	15	12	7
PERCENTAGE INCREASE							
1965-1973							
All Services	115%	140%	143%	132%	131%	106%	89%
Police	120	124	140	113	120	114	160
Debt Service	160	200	129	200	150	140	133

a. Data for cities with half a million or more residents adjusted for estimated 1965 and 1973 population.
 b. Per capita outlays based on 1960 and 1970 population, New York City included.
 c. Operating services other than education, welfare, housing and urban development, and hospitals.

SOURCES: Bureau of the Census, City Government Finances, 1964-1965, and 1972-73.
 Bureau of the Census, 1973 Population Estimates and Projections, p-25, 1975.

OUTLAYS FOR LOCAL SERVICES AND TAXES AS A PERCENTAGE OF INCOME

As shown in Table 6, per capita income in 1969 varied little as a function of city size for cities with 50,000 or more residents. During the year, the level of income in the largest cities with a million or more residents was only slightly higher than in other jurisdictions.^{2/} The cost of services, however, increases rapidly as size increases, so that the percentage of income allocated for the operation of local services also increases significantly in larger cities.

Per capita outlays for local services other than hospitals, schools, housing-urban development, and welfare were about 2.7 percent of per capita income for cities with 50,000 to 100,000 residents. This increases to 6.4 percent in cities with one million or more residents. Local taxes also increase from 2.8 percent of income in cities with 50,000 to 100,000 residents to 7.0 percent in the group of largest cities.^{3/}

Federal revenue sharing money is one source used by local governments to pay for local services. Nationally, cities with 200,000 or more residents received \$23 per capita in revenue sharing in fiscal 1973, compared to \$16 received by cities with 50,000 to 100,000 inhabitants. Revenue sharing funds per capita decline with city size, while per capita income, one of the criteria

^{2/} Money income in large cities increased more slowly between 1969 and 1972 than in smaller cities. Thus, most of the difference in income between the largest cities and other jurisdictions has been eliminated. In 1973, there was no difference in the median income of families living in the central cities of large or small SMSA. See Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population, op.cit.

^{3/} Taxes include those paid by business firms. Since some taxes are "exported" by cities while others are "imported" from other jurisdictions, tax incidence may vary from these values. For further discussion of this subject, see Chapter IV and Appendix C.

TABLE 6

PER CAPITA OUTLAYS FOR MUNICIPAL SERVICES AND LOCAL TAXES AS A PERCENTAGE OF INCOME, FISCAL YEAR 1970

	CITY SIZES									
	1 Million or More ^a	500,000- 1 Million	300,000- 500,000	200,000- 300,000	100,000- 200,000	50,000- 100,000	Less than 50,000			
Operating outlays ^b for local services	\$ 215	\$ 163	\$ 122	\$ 124	\$ 110	\$ 89	\$ 73			
Tax revenue from city sources	234	150	104	108	107	91	54			
Per capita money income 1969	3,342	3,214	3,165	2,984	3,318	3,309	N/A			
Outlays as percentage of money income	6.4%	5.1%	3.9%	4.2%	3.3%	2.7%	N/A			
Local taxes as percentage of money income	7.0	4.7	3.3	3.6	3.2	2.8	N/A			

a. New York City included.

b. All operating outlays except hospitals, housing and development, schools, and welfare.

SOURCE: U.S. Bureau of the Census, City Government Finances in 1969-1970, Washington, D.C., 1972.

U.S. Bureau of the Census, County and City Data Book, 1972, Washington, D.C., 1973.

in the revenue sharing formula, does not differ substantially among cities with 50,000 or more residents. Tax effort for services other than schools, the other major variable determining the amount of money received, explains most of the difference in per capita revenue sharing aid received.

REVENUE AS A FUNCTION OF CITY SIZE

Local governments pay for city services from three revenue source: higher tiers of government (federal, state, county), locally imposed taxes, fees, charges and other local nontax revenue.

For a typical city, revenue from its own sources is sufficient to pay for all local services other than education, hospitals, housing, and welfare. In fact, in cities with fewer than one million residents, local services other than the four specified, require only 85 to 91 percent of locally raised revenue. The balance is allocated for education (which is paid, in part, by the local, state, and federal government) and, to a lesser degree, for hospitals, housing, and welfare, generally in the form of matching funds.^{4/} Intergovernmental revenue as a percentage of all revenue increases with city size among cities with populations of 50,000 or more; the share of these intergovernmental funds ranges from 29 percent in cities with 50,000 to 100,000 residents to 44 percent in cities with a million or more.

As shown in Table 7, local tax revenue in 1972-73 varied from \$75 per capita in the smallest cities to \$316 in the largest cities. In part, this is attributable to more services provided by counties for their smaller

^{4/} For example, in fiscal 1975 the City of Richmond paid from its own funds 13 percent of the welfare budget, 44 percent of the operating health budget, and 56 percent of the operating school budget.

TABLE 7
MUNICIPAL PER CAPITA REVENUE BY SOURCE AND CITY SIZE

Revenue	City Sizes							
	All Cities ^a	1 Million or More	500,000- 1 Million	300,000- 500,000	200,000- 300,000	100,000- 200,000	50,000- 100,000	Less than 50,000
1972-73:								
Intergovernmental Revenue ^b	\$118	\$315	\$174	\$119	\$120	\$ 97	\$ 66	\$ 61
Local tax revenue ^c	140	316	195	141	146	144	123	75
Property tax	(90)	(175)	(113)	(87)	(97)	(109)	(91)	(57)
Other (nontax) local revenue ^d	<u>55</u>	<u>84</u>	<u>68</u>	<u>77</u>	<u>60</u>	<u>41</u>	<u>39</u>	<u>42</u>
TOTAL	313	715	437	337	326	282	228	178
1964-65:								
Intergovernmental revenue	\$ 30	\$ 66	\$ 52	\$ 30	\$ 22	\$ 30	\$ 26	\$ 16
Local tax revenue	80	177	108	76	78	82	81	41
Property tax	(56)	(105)	(77)	(54)	(55)	(70)	(66)	(31)
Other (nontax) local revenue	<u>26</u>	<u>38</u>	<u>32</u>	<u>33</u>	<u>27</u>	<u>29</u>	<u>25</u>	<u>20</u>
TOTAL	136	281	192	139	127	141	132	77
Percent change: 1965-1973								
Intergovernmental revenue	293%	377%	235%	297%	445%	223%	154%	281%
Local tax revenue	75	79	81	86	86	76	52	83
Property tax	61	69	47	61	76	56	38	39
Other (nontax) local revenue	112	121	113	133	122	41	56	110

a. This category includes about 18,000 municipalities.

b. From state and federal governments.

c. Includes property tax (although that item is also shown separately in parenthesis).

d. Nontax revenues, including licenses, fees, and service charges.

jurisdictions. A more important factor is that fewer and less expensive services are provided by smaller communities. Local tax revenues on a per capita basis do not vary significantly for city sizes in the 100,000 to 500,000 population category.

The relative importance of property taxes diminishes as city size increases. In communities with fewer than 50,000 residents, property taxes accounted for 76 percent of all local taxes in 1972-73, while in cities with more than one million residents, 55 percent of the local taxes were raised in this manner. Nontax local revenue increases as a percentage of all revenue from local sources as size declines. Thus, 26 percent of local revenue in cities with one million or more inhabitants in 1972-73 came from this source, compared to 39 percent in cities with the least population.

Between fiscal 1965 and fiscal 1973, intergovernmental revenue almost tripled, local tax revenue increased by 75 percent, and other local revenue increased by 112 percent. In 1965, intergovernmental revenue represented 22 percent of all revenue at the local level; its share increased to 38 percent by 1973.

Property taxes increased less in recent years than other local revenue sources in each city category. In 1965, property taxes accounted for 70 percent of all local tax revenue; by 1973, the property tax had dropped to a 64 percent of that revenue.

IV. THE FISCAL STATUS OF GROWING AND DECLINING CITIES

The previous chapter considered the cost of public services in relation to the population of cities. Now we will consider a second factor--the direction of the change in population. This examination disregards smaller communities and focuses on two groups of cities--those with 200,000 to 500,000 inhabitants and those with half a million or more. The two groups had a combined population of 44.5 million in 1970, or about one-third of all Americans living in municipalities. A majority (75 percent) lived in the largest cities--those with more than half a million inhabitants.

Because these large cities are facing the most serious fiscal difficulties and are more typically losing residents and jobs, this report will look most closely at them. First, some general characteristics of cities in both population categories will be presented.

GENERAL CHARACTERISTICS--CITIES WITH 200,000 TO 500,000 RESIDENTS

Thirty-six cities with a combined population of 9.8 million in 1960 and 11.2 million in 1973 are identified as having 200,000 to 500,000 residents.^{1/}

Of these 36 cities, 24 had increases in population between 1960 and 1970 while 12 had population declines. Among the declining cities are three older urban areas close to larger central cities--Jersey City and Newark, which are part of the greater New York megalopolis, and Oakland, part of the San Francisco urban area.

^{1/} The 36 cities, their land areas, and their 1960 and 1973 populations are listed in Appendix B.

Among cities experiencing population growth in the 1960s, all but three--Atlanta, Norfolk, and Yonkers, a suburb of New York City,--annexed ^{2/} sizable areas. Excluding the Nashville consolidation with Davidson County, the total geographic area of these 24 cities expanded by 43 percent between 1960 and 1973.

All growing cities except Toledo, Wichita, and Yonkers are located in the South or West. Conversely, only three of the declining cities--Birmingham, Oakland, and Louisville--are in these regions of the nation.

In 1969, per capita income in the declining cities was marginally above the average of the growing cities. However, this pattern was reversed by 1972, when per capita income was \$3,858 in the growing cities compared with \$3,670 in the declining cities--a difference of 5 percent. ^{3/}

GENERAL CHARACTERISTICS--CITIES WITH 500,000 OR MORE RESIDENTS

To examine the fiscal effects of population growth or decline among large jurisdictions, cities which had a half million or more residents in either 1960 or 1970 are separated into two groups--those with population increases during the 1960s and those with population losses during this decade. New York City, which maintained a stable population for two decades, is viewed separately.

As shown in Table 8, fourteen cities are identified as declining and 13 as growing. Declining cities had a combined population of 15.3 million in

^{2/} Atlanta and Norfolk lost substantial population between 1970 and 1973, and thus show negative population growth between 1960 and 1973.

^{3/} In the absence of any immigration or outmigration from all central cities between 1970 and 1974, aggregate income would have been \$30 billion or 11 percent higher than it actually was in 1974. Thus, net outmigration caused a relative drop in income of 11 percent. Families which moved into central cities had an average income 4 percent below the level of the 1970 city population and 10.1 percent below the level of those who moved out of cities.[10]

TABLE 8

POPULATION OF ALL CITIES WITH 500,000 OR MORE
RESIDENTS, 1960, 1970, 1973, IN THOUSANDS

CITY	1960	1970	1973	Percentage Change 1960 to 1973
Declining in Population: ^a				
Baltimore	939	906	878	- 6.5
Buffalo	533	463	425	-20.2
Cincinnati	503	453	426	-15.3
Cleveland	876	751	679	-22.5
Boston	697	641	618	-11.3
Chicago	3550	3369	3173	-10.6
Detroit	1670	1514	1387	-16.9
Milwaukee	741	717	691	- 6.9
New Orleans	628	593	569	- 8.8
Philadelphia	2003	1949	1862	- 7.0
Pittsburgh	604	520	479	-20.7
St. Louis	750	622	558	-25.6
San Francisco	740	716	687	- 7.2
Seattle	557	531	503	- 9.7
Total	14,791	13,743	12,939	-12.5
Growing in Population:				
Dallas	680	844	816 ^b	+20.0
Columbus	471	540	541	+14.9
Denver	494	515	516	+ 4.5
Houston	938	1234	1320	+40.9
Indianapolis	476	794	792 ^c	+66.3
Los Angeles	2479	2812	2747 ^b	+10.8
Memphis	498	624	659 ^b	+32.3
Kansas City	476	507	488 ^b	+ 8.4
Honolulu	500	631	686	+37.2
Jacksonville	201	529	548 ^c	+172.6
Phoenix	439	587	637	+45.1
San Antonio	588	708	756	+28.6
San Diego	573	697	757	+32.1
Total	10,511	11,022	11,288	+ 7.4
New York City, 1960-1970: ^d				
	7,782	7,895	7,645	- 1.8

a. Washington, D.C. excluded.

b. Population decline since 1970

c. City-County Consolidation.

d. The population of New York City remained stable between 1950 and 1972.

SOURCES: Bureau of the Census, 1960 and 1970 Census of Population, 1962 and 1972.

Bureau of the Census, Population Estimates and Projections, Series P-25 and P-26, 1975.

1950; their population fell to 14.8 million in 1960 and 13.7 million in 1970. Since 1970, outmigration from these cities has resulted in a combined population decline of more than 800,000. At the current rate of outflow, there will be only 11 million residents in these cities by the end of the 1970s. Within this group of cities, St. Louis had lost 26 percent of its 1960 population by 1973, Cleveland 23 percent, Pittsburgh 21 percent, and Detroit 17 percent. By 1973, Cleveland and St. Louis each had lost more than one-third of their 1950 populations. If New York and some other northeastern cities are the precursors of the future, the rate of outmigration may continue to accelerate. New York City had a net outflow of 244,000 persons between 1970 and 1973. In the following year, 169,000 more people left the city than ^{4/} moved in.

One limitation of present migration data is that it does not fully take into account immigration, both legal and illegal, from other nations. Therefore, net outmigration, particularly from cities which are entry ports such as New York, may be understated. If one estimate is correct--that there are over one million recent illegal aliens from the Caribbean, Central America, and other areas in New York City--then outmigration since 1970 would be greater than reported by the Census to the extent that outmigrants were replaced by illegal entrants [11]. Similarly, the estimate of 100,000 persons from Honduras settling illegally in New Orleans since the 1960s would lead to an understatement of outmigration from that city.

Characteristics other than migration that also distinguish growing cities from declining cities include their regional location, their patterns of

^{4/} Despite this outflow, the city in 1973 comprised 42 percent of the total population of New York State.

spatial expansion, and their changes in private employment.

Three of the 13 growing cities--Columbus, Kansas City, and Indianapolis--are in the North Central region, five are located in the South, and five in the West. Among declining cities, 11 are located within the Northeast and North Central region, and 3 in the South and West.

Between 1960 and 1970, the 13 growing cities increased their combined territory through annexation or consolidation by 46 percent, from 2,289 to 3,336 square miles. All cities in this category, not counting Honolulu and San Diego, annexed substantial land areas, in the process of which they each added more than 10,000 persons.^{5/} Two of the cities, Indianapolis and Jacksonville, consolidated with their counties. In the absence of annexation, a number of cities such as Denver and Indianapolis would have had an absolute population loss. Among declining cities, however, none annexed any substantial area in the 1960s.^{6/}

In 1970, the average density of growing cities was about 4,000 persons per square mile, compared to 11,660 in declining cities.^{7/} This difference

^{5/} San Diego annexed 18 square miles with 9,980 persons. The total 1970 population of areas annexed by growing cities was 425,000, or 246 persons per square mile, which is roughly equal to the average population density of the state of Pennsylvania. During the 1950s, annexation was equally important.

Five cities--Dallas, Houston, Phoenix, San Antonio and San Diego--increased their total area from 458 square miles in 1950 to 1,105 in 1960. The average density in these cities was higher in 1950 than in 1974.

^{6/} In some states, annexation requires the approval by vote of affected residents, while in other states, courts can approve or deny proposed annexation. Most declining cities are ringed by incorporated jurisdictions, and thus cannot annex or consolidate without the agreement of the incorporated municipality.

^{7/} Excluded from these computations are New York City, and the two cities which consolidated with the balance of their counties--Indianapolis and Jacksonville (both of which now have extremely low densities). If one looked only at the 1970 population residing within the 1960 boundaries, the density of these growing cities would measure about 5,000 persons per square mile.

will be narrowed in the coming years, as a result of both continuing outmigration from areas of high density and legislation restricting annexation in a number of states, such as Colorado and Virginia. Somewhat reduced annexation levels already have been observed.

Between 1960 and 1970, central cities increased their land area by about 3.5 percent each year, while the average annual increase between 1970 and 1974 was only 2 percent. However, 6 of the 13 growing cities--Columbus, Denver, Houston, Memphis and San Antonio--added substantially to their territory. The two cities with the largest annexations since 1970 are Houston and San Antonio. Houston increased its size from 447 square miles in December, 1970 to 506 miles in December, 1973. A major annexation is scheduled for December, 1975. San Antonio increased its territory from 184 square miles in 1970 to 263 square miles at the end of 1974. The total area annexed by the 6 cities from 1970 to the end of 1973 was 219 square miles [12].

There is little question that areas of high population density will continue to lose a substantial number of residents. Between 1960 and 1970, all but three of the nation's cities with population densities exceeding 10,000 persons per square mile had substantial net outmigration resulting in absolute population declines. The three exceptions, Berkeley, California, Yonkers, New York, and New York City, joined other high-density cities in their continuing and usually accelerating population decline since 1970. To what degree this relationship is a function of city age rather than density per se is difficult to ascertain because age, density, and decline are highly correlated. While one can cite a number of recent housing developments built at high-population density, such as those on beachfront property, these developments typically represent only a small share of the total land within a jurisdiction. One suspects that density independent of age may have at least a

minor role in the outmigration process.

There appears to be a correlation between private employment loss and large-scale outmigration. Most large cities that are losing population, as previously shown in Table 4, also are losing employment. A notable exception during the period examined is the Detroit area, which gained employment between 1970 and 1973, primarily in the automotive and related industry sectors.^{8/}

The loss of employment in declining cities is concentrated in the manufacturing sector. Of the 107,000 jobs lost between 1970 and 1973 in the Cities of Boston, Cleveland, Philadelphia, and St. Louis, 78,000 were in manufacturing. Since the wages of those working in manufacturing in these four cities are about 10 percent higher than in other private jobs, the economic impact was more severe than the percentage of reduction in the level of employment indicates. In New York City, 115,000 of the 244,000 loss in private jobs was in the manufacturing sector.

Central cities in the Northeast and North Central states lost employment to outer SMSA jurisdictions and exurban areas as well as to other regions. Unemployment in cities losing population in the 1970s was about 20 percent or more above the average of growing urban areas, although one growing city, San Diego, had unemployment above the national average.^{9/}

Other differences between declining and growing cities include the racial composition and economic status of their residents. In 1970 the percentage of

^{8/} During 1974 and 1975, Detroit's dependence on the auto industry swiftly reversed this situation and caused substantial unemployment, considerably above the national average. Cities with a more diversified economic base, such as Chicago and Indianapolis, had lower rates of unemployment than other declining cities.

^{9/} Unemployment in Cleveland, San Francisco, Philadelphia, and New York City during 1973 ranged from 6.0 to 10.6 percent.

blacks was more than 30 percent in declining cities, 19 percent in growing cities, and 21 percent in New York City. The proportion of households below the poverty level in 1969 was 12.4 percent in declining cities, 10.6 percent in growing cities, and 11.5 percent in New York City. Indications are that the poverty level gap between growing and declining cities has increased since 1970 Census data became available.

CITY EXPENDITURES FOR LOCAL PUBLIC SERVICES, 1950-FISCAL 1973

Personnel costs account for a major share of city expenditures. Between 1950 and fiscal 1973, the number of municipal employees (full and part time) in all cities nationally increased more rapidly (from 1.3 to 2.4 million) than population increases in the cities. The monthly payroll of workers increased even more rapidly, from \$290 million to \$1,654 billion (a factor of 5.7) while per capita personal income increased from \$1,495 to \$5,041 (a factor of 3.4).

Per capita outlays for local services (excluding education, hospitals, and welfare) in the growing cities averaged \$26 in 1950, ranging from \$16 in San Antonio to \$36 in Los Angeles. The 14 declining cities had an average outlay of \$38, or 46 percent higher than the growing cities. New York City spent \$43 per capita, more than any other city with the exception of Boston and San Francisco.

In fiscal 1973, outlays for similar services in growing cities reached \$154 per capita, or 5.9 times their 1950 average; declining cities spent \$249, or 6.6 times their 1950 average; and New York City spent \$397, or 9.2 times its 1950 level. The differential between declining and growing cities increased to 62 percent.

Although expenditures increased more rapidly in most large cities than in smaller cities, the position of cities with the highest and lowest expen-

ditures remained virtually unchanged after more than two decades.

As noted in Chapter III, the most rapid cost increases have taken place since the mid-1960s. Therefore, the following discussion will identify causes for rising outlays between October, 1967 and October, 1972 and analyze factors, which have contributed to lower rates of increase for many declining cities since 1973.

WORK FORCE, WAGES, AND BENEFITS FOR COMMON CITY SERVICES

Personnel costs--gross wages for municipal employees--account for the dominant share of local service outlays. In 1972-73, New York City spent \$637 per capita for personnel; declining cities spent \$240 or 71 percent more ^{10/} than the growing cities, which spent \$141.

THE WORK FORCE. The number of workers per capita performing common municipal services varies considerably among cities. ^{11/} As shown in Table 9, a number of large growing cities perform these services with approximately half the work force of some of the declining cities.

Municipal workers are compared by city size and growth status in Table 10. The 14 large declining cities during 1972 employed 40 percent more workers per thousand residents than did the 13 large cities with rising population, and 67 percent more than all cities with fewer than half a million residents. In growing cities, the rate of increase on a per capita basis from October 1967 through 1972 was somewhat higher than in declining cities, and almost twice the rate of smaller cities, but the gap was being reduced

^{10/} Personnel costs include all functions partially or fully funded from nonlocal revenue sources, as well as those that are locally funded.

^{11/} Municipal workers are those performing what are known as "common municipal services." These include police and fire protection, sanitation, water utilities, parks and recreation, libraries, general control, and financial administration. Excluded are welfare, education, and other services which frequently are performed by county or other nonmunicipal workers.

TABLE 9

MUNICIPAL WORKERS PER 1,000 RESIDENTS IN SELECTED CITIES, FISCAL 1973

Cities	1972 Population (in thousands)	Number of Employees*	Employees per 1,000 Residents		
			Police and Fire	Other Services	
Growing:					
Houston	1,292	8,998	3.5		3.5
Indianapolis	793	5,540	3.1		3.9
San Diego	737	5,324	2.8		4.4
San Antonio	740	4,404	2.5		3.5
Declining:					
Boston	626	9,291	8.5		6.3
Buffalo	440	5,426	6.5		5.8
New Orleans	580	7,815	4.8		8.7
Philadelphia	1,891	26,451	6.7		7.3

*Employees providing common public services (excluding welfare, for example).

SOURCES: Bureau of the Census, Population Estimates and Projections, 1975;
and 1972 Census of Governments.

TABLE 10
NUMBER OF EMPLOYEES AND WAGES FOR COMMON MUNICIPAL
FUNCTIONS, OCTOBER 1967 AND OCTOBER 1972
(Cities with 500,000 or more Residents and Other Cities)

City Category	Number of Cities	Number of Municipal Employees Performing Common Functions				Workers Per 1000 Residents		Percent Increase 1967-1972
		Estimated Population (in thousands)		Municipal Workers		1967	1972	
		1967	1972	1967	1972	1967	1972	
All cities over half million residents	13	10,359	11,181	82,055	99,444	7.9	8.9	13%
Growing	14	14,052	13,201	158,513	164,837	11.3	12.5	11
Declining	1	7,890	7,823	96,232	95,515	12.2	12.2	0
New York City	18,489	93,036	102,054	651,235	767,235	7.0	7.5	7
All cities under half million residents								

Monthly Average Wages for Municipal Workers				
City Category	Number of Cities	Wages		Percent Increase 1967-1972
		1967	1972	
All cities over half million residents	13	\$556	\$ 796	43%
Growing	14	598	899	50
Declining	1	709	1190	68
New York City	18,489	515	766	49
All cities under half million residents				

SOURCE: Bureau of the Census, Census of Governments, 1967 and 1972, Volume 3:
Population Estimates and Projections, Series P-25; and Census of Population, 1970.

only marginally. New York City stabilized its work force for common functions between October 1967 and October 1972 to a level slightly below the average of other declining cities.

Several factors contribute to differences in the number of workers between growing and declining cities. In older cities, commercial and industrial property accounts for a large percentage of all property, and these cities have a substantial number of commuters, which suggests additional need for public safety, sanitation and street maintenance workers to protect and service both property and commuters. In San Francisco, for example, 24 percent of all police calls are initiated in the Central Business District (CBD). Similarly, 22 percent of fire department outlays are concentrated in the CBD, ^{12/} although only 11 percent of the population reside in that part of the city.

An additional factor contributing to fewer common service workers in growing areas are the socioeconomic characteristics of annexed areas. In most growing cities, about half of the area is comprised of land annexed since the mid-1950s. These areas, dominated by single family housing, apparently utilize public safety and social services less frequently than the central city areas. It may be further argued that the somewhat higher concentration of low-income households in declining cities increase police outlays, although crime rates in growing and declining cities were about the same during 1973, 67.8 and 67.4 ^{13/} per 1,000 residents.

^{12/} The direct cost of providing city services to commuters is usually more than offset by the revenues they generate. (See [13]).

^{13/} Crime rates in growing cities have been increasing more rapidly than in declining cities. In 1968, growing cities had a crime rate of 32.8 per 1,000 residents and declining cities, 44.2 per 1,000 residents. However, most growing cities had very high rate increases between 1968 and 1973, such as 192 percent in Dallas, 188 percent in San Diego, and 182 percent in Phoenix. These were greater increases than occurred in any declining cities. The highest 1973 crime rates were 115 per 1,000 in St. Louis, and 97.3 per 1,000 in Phoenix.

Large cities, regardless of population growth or decline, have higher crime rates than smaller cities. During 1973, cities with 250,000 or more residents had 66 crimes per 1,000 residents; cities with a population of 10,000 to 25,000 38 crimes per 1,000, close to the suburban average of 36 per 1,000. In the 1970s, however, the pattern of the previous decade has been reversed and crimes in small jurisdictions have been rising more rapidly than in large cities.

Scheduled hours for municipal workers also vary for some functions. Thus, duty hours per week for fire department members are 40.0 hours in New York City, 49.9 hours in declining cities, and 54.9 in growing cities. This means that an average declining city requires 10 percent more workers to maintain the same number of duty hours as in the average growing jurisdiction.

Do more employees per capita in declining cities imply a higher service quality or broader service levels? If we examine such imperfect output measures as the level of public safety or expected loss from fire damage for a level of capital stock, there is no evidence of a positive relationship between higher outlays and increased safety, and some evidence of a negative relationship. This is not to argue that fewer personnel would not result in higher crime rates or more fire damage. To provide equivalent service levels, declining cities may well require substantially more personnel than growing cities, because of one or more of the following factors: differences in population characteristics, the age of both private and public structures, average population density, and the concentration of daytime population in the CBD.

Another important factor in terms of the number of municipal employees is that per capita demand for labor-intensive services tends to rise as a city expands. Thus large cities experience above-average growth rates of municipal workers. Lower population levels in large cities are to a considerable extent attributable to outmigration of middle-income families. This outmigration does not reduce the level of crime, the number of buildings which require fire protection, miles of streets, utility lines, or parks which need maintenance. Indeed, as buildings and facilities age, the operation and maintenance costs rise.

Furthermore, one a city's population is large and highly concentrated, it is difficult to reduce the scope of services even if the population declines because of institutional resistance to change. Associations or unions representing local employees are strongly opposed to any reduction in their ranks, which would create more work for the remaining employees while reducing confidence in the association's ability to bargain collectively for job security. Because of civil service regulations, many local governments have limited control over personnel changes, which frequently lead to duplication of activities. Employees in declining areas place more emphasis on job security through collective action because opportunities for advancement are more limited than in growing areas.

Even in the absence of the factors cited, there is an institutional lag between service demand changes and employment level changes. Service costs in growing areas, for example, do not generally catch up with population increase for several years. And in cases when demand slackens it takes time before services are actually reduced. This institutional lag tends to exaggerate the personnel differential between growing and declining cities.

WAGES. Declining cities not only have more municipal workers per capita but they also pay them higher average wages, as shown in Table 10. Wages in declining cities were 13 percent higher than in growing cities in October 1972. Differences in city location are a factor in wages paid to municipal workers. Cities located in the South, regardless of size or direction of growth, pay lower wages than cities in other regions. Particularly significant is the rapid rate of wage increases in the large declining cities.

New York City had the most rapid rate of increase--68 percent in the five-year period through fiscal 1973. Chicago and Detroit reached average monthly salaries of \$1,050 in October 1972, a 60 percent increase from fiscal 1968 to 1973. Wages in declining cities averaged 17 percent higher than in all cities with fewer than 500,000 residents [14].

How can one explain the increasing wage differentials between growing and declining cities? To some degree, the wage differentials reflect regional differences in the cost of living, as exemplified by Houston and San Antonio.

An empirical analysis of private-sector wage differentials among cities grouped by size concludes that roughly half the wage differential is explained by higher costs of living in large cities which, in turn, are mostly attributable to higher rents [15]. The remaining half of the wage differential, it is argued, can be viewed as a means to compensate workers for the deterioration in the quality of life attributable to size and possibly higher density. Negative quality factors include the longer time and higher cost of journeying to work, higher crime, and greater air pollution.

Both cost-of-living and quality-of-life factors may explain some of the public employee wage differences among cities which vary in size.

However, wage differences between central cities and their suburbs are more difficult to attribute to cost-of-living differentials. While rents may be slightly higher in some central cities than in the suburbs, and some municipal employees have higher commuting outlays, this cannot explain why wages for municipal employees in 1973 were 34 percent higher in Philadelphia ^{14/} than in adjoining Montgomery County.

One factor which requires further analysis is the ability of municipal employee associations in declining cities to press for favorable contract terms involving wages, hours, and fringe benefits. Declining, high-density cities are more vulnerable to strikes by sanitation workers or public safety employees than newer, lower density jurisdictions. The political strength of municipal employees also appears substantial in some large, older cities as their numbers have increased while traditional political party control has weakened.

The percentage of the overall labor force that is unionized appears related to wages. Texas, which has few unionized workers has lower public sector employee wages than highly organized states such as Michigan and New York. However, since unionization extends beyond the central city into the suburbs where wages are lower, this is not a sufficient explanation.

The relative strength of groups representing municipal employees in labor negotiations may be one reason why wages differ among city departments. Differences in physical and educational requirements as well as in work hazards no doubt contribute to intracity wage differentials. As shown in Table 11

^{14/} For a discussion of intrametropolitan differences, see Appendix A.

TABLE 11

MONTHLY WAGES FOR MUNICIPAL WORKERS IN SELECTED CITIES OCTOBER 1972

Cities	Police Protection	Fire Protection	Sanitation Other than Sewage	Parks and Recreation
Declining:				
Boston	\$ 921	\$1,016	\$ 746	\$720
Detroit	\$1,119	\$1,155	\$ 949	\$896
San Francisco	\$1,205	\$1,401	\$ 959	\$931
Growing:				
Dallas	\$ 893	\$ 961	\$ 336	\$544
Houston	\$ 831	\$ 864	\$ 637	\$595
Memphis	\$ 852	\$ 874	N/A	\$585
New York City	\$1,568 ^a	\$1,254	\$1,118	\$773

a. Wage data for this service may be incorrect. In October 1974, New York police wages are shown to be \$1,223.

SOURCE: Bureau of the Census, Local Government Employment in Selected Metropolitan Areas and Large Counties: 1972 and 1974.

higher wages generally are paid to the uniformed personnel--police and fire department staff--and the lower wages to sanitation, parks, and recreation workers. The last two groups receive only about 60 to 80 percent of the wage received by those working in the police or fire departments. In addition, pension plans for uniformed personnel are more generous in both declining and growing cities than for other municipal employees.

Higher wages are not attributable to a greater ability to pay for services on the part of declining cities. Per capita income is rising less slowly in declining cities, with the majority losing private-sector jobs to their suburbs or other regions.

BENEFITS. In addition to differences in wages between growing and declining cities, employee benefits, which average about 35 percent of base wages, need to be considered. Retirement systems are the major municipal cost in benefit packages. Membership in these systems has risen by 28 percent between 1967 and 1972, with contributions to retirement systems increasing more rapidly than wages. Cash and security holdings of all state and local systems increased from \$62 billion in 1970-71 to \$87 billion in 1973-74, an increase of 40 percent in three years. This suggests increasing economic and possibly political power to trustees responsible for investment decisions.

The combination of higher wages and more employees per capita in declining cities requires that a substantial share of their local budgets be allocated for pension plans. For example, Buffalo in fiscal 1974 allocated 15 percent of its total non-educational operating budget for pension and retirement payments, while Houston in 1974 allocated only 7 percent of its operating budget for pension fund payments. The bulk of payments from local revenue to city-administered retirement programs is concentrated in a few

large cities. Boston, Detroit, Philadelphia, and San Francisco, in fiscal 1974, accounted for 86 percent of all payments among declining cities. Declining cities allocated \$29 per capita to city-administered retirement payments in fiscal 1974, cities with growing populations \$17.^{15/} In fiscal 1974, New York allocated \$789 million, or \$103 per capita to pension plans, including those for teachers. This outlay represents 43 percent of all local government contributions to locally administered systems and equal to what cities with fewer than 50,000 residents spent per capita in fiscal 1973 for all local services (see Table 5).^{16/}

In most cities, fire fighters and police officers receive a large share of total pension fund contributions by cities. For example, these two groups of employees in Los Angeles and Chicago receive \$214 million, or 65 percent of all local pension fund contributions. Yet, they represent only 36 percent of the work force. In Houston, 69 percent is allocated to fire fighters and police officers in 1975, although they receive only 35 percent of city wages.

Finally, because the age of municipal employees in declining cities is probably above the national average, increased payments by local governments or higher employee contributions will be necessary in future years to keep the funds solvent.^{17/}

^{15/} Contributions by cities to regional and state-administered programs are excluded. Also excluded is a \$27 million payment to the Chicago school district and \$17 million by cities to other school districts.

^{16/} The high per capita New York City pension plan contribution is partially attributable to the \$314 million payment for teachers, \$10 million for other school employees. The state contribution to pension plans was only \$1 million. Payments for other municipal workers are \$60 per capita, less than the \$81 per capita payment by Detroit or \$72 per capita payment by San Francisco.

^{17/} Because the District of Columbia which operates as both a city and state, is excluded from this analysis, its pension fund payments have not been included in the above statistics. The pension program of the District of Columbia is seriously underfunded.

WORK FORCE, WAGES, AND BENEFITS FOR NONCOMMON SERVICES: FISCAL 1968 TO 1973

In addition to common functions (defined as services provided by most local governments and usually paid from local revenue sources), a number of cities provide additional services for their residents. These functions include hospitals, other health care, housing, and urban renewal; they may actually be the function of county government and may derive at least some revenue from higher levels of governments.^{18/} In view of differences in scope of services and the method of financing, interpreting differences between cities requires some care. New York City, which in fiscal 1973 employed 30,000 more noncommon service workers than all other cities in the nation with one-half million or more residents, is a case in point. The city employs thousands of workers to police public housing and the transit system, and to provide social and transportation services, mostly from its own revenue sources. The scope of these services in most other cities is substantially lower, provided by county and state government, or nonexistent.

As shown in Table 12, the number of noncommon service employees in growing cities is low, 4.2 per 1,000 residents, but increasing rapidly. In comparison, declining cities had about 48 percent more such workers per capita in October 1972 and their ranks also have swelled, but at a lower rate. The variance in the number of noncommon services among cities is extreme, with cities such as Columbus and Pittsburgh having very few noncommon service workers. One factor for this variation among large cities is the presence of municipal hospitals, which employ one-fourth of all noncommon workers. Nine of the 14 declining cities, but only 4 of the 13 growing cities, list

^{18/} Education, the largest noncommon service, is discussed in the subsequent section. Also, more declining cities, such as Baltimore, Philadelphia, and St. Louis, than growing cities, function as counties.

TABLE 12
NUMBER OF CITY EMPLOYEES AND WAGES FOR NONCOMMON SERVICE FUNCTIONS,
OCTOBER 1967 AND OCTOBER 1972

City Category	Number of Cities	Number of Municipal Employees Providing Noncommon Functions ^a					Percent Change 1967-1972
		Estimated Population (in thousands)	1967	1972	Municipal Workers Noncommon Function	Workers Per 1000 Residents	
All cities over half a million	10	8,545	9,214	26,981	38,255	3.2	4.2
Growing ^b							
Declining	14	14,056	13,201	75,012	82,329	5.3	6.2
New York City	1	7,890	7,823	127,078	152,109	16.1	19.5
All cities under half a million	18,492	94,850	104,021	192,675	250,527	2.0	2.4

Monthly Average Wages for Municipal Workers
Performing Noncommon Functions

City Category	Number of Cities	Wages ^c		Percent Change 1967-1972
		1967	1972	
All cities over half a million	11	\$584	\$805	38
Growing				
Declining	14	581	837	44
New York City	1	690	958	39
All cities under half a million	18,491	N/A	815	N/A

- a. Excluding education, but including hospitals, health, housing and urban development, local utilities other than water supply, natural resources, transportation facilities, and public welfare.
b. Indianapolis and Jacksonville, which consolidated with the surrounding county and are performing services in 1972 previously provided at the county level in 1967, and Memphis are excluded from this table.
c. Wages for education staff in cities where schools are part of the city budget are included.

SOURCE: Bureau of the Census, 1967 and 1972 Census of Governments, Volume 3.

hospital workers on their payroll, indicating how the scope of services differs.

Housing and urban development is another function concentrated in the declining cities with 500,000 or more residents. In 1972-73, some \$128 million in operating outlays was spent in this activity in declining cities, \$18 million in growing cities, and \$261 million in New York City. New York accounted for 39 percent of the total \$664 million in operating outlays spent on this function by all municipalities in the nation. Housing activities involved about 31,000 persons in all cities during 1972-73. Of this total, 21,000 persons were employed in cities with 500,000 or more residents--12,200 in New York City, 2,200 in Chicago, and 1,840 in Philadelphia, with the balance in the other cities with housing or urban development programs. Two growing cities, Dallas and San Diego, had no expenditures at all listed for this function.

Declining cities appear to have undertaken more social services, probably reflecting greater social concerns, differences in state-local responsibility, and political pressures. The low number of noncommon service workers in smaller cities indicates that fewer services are provided, at least so far as local government is concerned. ^{19/}

Wages for noncommon services in declining cities follow the pattern of common services and are rising more rapidly than in growing cities. Combining the workers for common and noncommon services (other than education), one finds that 13.1 workers per 1,000 residents were employed in growing

^{19/} The fiscal impact of immigration from other countries on large cities is not known. However, the minimal decline in school enrollment in New York City despite substantial outmigration of families with children suggests that immigration of large households increases educational outlays substantially.

cities in fiscal 1973. The figure was 18.7 in declining cities, and 31.7 in New York City. The difference in employment levels between growing and declining cities (43 percent) closely paralleled the difference in their per capita operating outlays, showing the importance of personnel in the overall budget.

It should be noted that some declining cities, notably New York, fund a broad scope of noncommon services, with income transfers available to some residents. For example, residents taking advantage of free college education or heavily subsidized transit fares have lower private outlays than otherwise would be the case. An analysis of the overall impact of such "in-kind" income and its distributive effects is beyond the scope of this paper. However, Wilbur R. Thompson explains that the provision of such "free" educational and medical services, as well as generous welfare payments, tends to impede the outmigration of low-income households [16]. Thus, the very scope of services, if paid from local revenues, can increase the outmigration of those middle-income households who do not benefit from these services and reduce the 20/ outmigration of the less affluent.

Uniformed common service workers, as noted previously, receive the bulk of all pension fund payments. Noncommon service workers (other than teachers) such as hospital workers have more modest pension plans, frequently requiring greater employee contributions. In some cities, noncommon service workers are covered by county or state pension plans.

20/ Among the beneficiaries of expanded municipal employment and higher wages are those middle-income employees on city payrolls. However, these workers are only a small, although frequently a politically influential, part of a total city labor force.

MUNICIPAL EMPLOYMENT AND WAGES, FISCAL 1973-1975

Between October 1967 and 1972, as shown in previous sections of this report, municipal employment in most declining cities increased. Wages also increased at a rate of about 9 percent annually. The combination of more workers and higher wages caused a sharp rise in payrolls. Between October 1972 and October 1974, there were signs of a partial slowdown of this payroll growth trend. Of the 14 declining cities, 8 had fewer employees (other than in education) in 1974 than in 1972. Two declining cities, Cleveland and Cincinnati^{21/}, expanded their work force by more than 5 percent. Seattle reduced its work force by 13 percent, mostly by eliminating jobs in local utilities, while Boston reduced its employment by 10 percent and New Orleans by 7 percent. Total employment in all declining cities was reduced by about 1.5 percent, or somewhat less than the loss in population, estimated at about 4 percent during the 2-year period. Thus, on a per capita basis, there was actually a small increase in employment.

Wages per employee increased in declining cities by only 13 percent, a lower rate than in previous years, compared to a 15 percent increase for municipal workers in all cities nationally. This occurred despite a more rapid cost of living increase in declining cities than in other urban areas.

Average monthly earnings of municipal workers in San Francisco, the highest of any city with 500,000 or more residents in 1972, (with the exception of Los Angeles), increased by only 7 percent, and in Buffalo by only 3 percent. Among high wage increases are those in Boston (26 percent), Cincinnati^{22/}, (23 percent) and in Cleveland and Chicago (14 percent each).

^{21/} There is a minor discrepancy in the number of city employees shown by the Bureau of the Census, used in this report, and the Cleveland city budget.

^{22/} Average monthly wages of municipal workers in all cities with 500,000 or more residents during October 1972 and October 1974 are shown in Appendix B.

Among cities growing in the 1960s, three--Honolulu, Kansas City, and San Diego--had fewer municipal workers in October 1974 than in October 1972. The other 9 cities had increases, with the most substantial expansions in Denver (31 percent) and Indianapolis (27 percent). While most local functions in Denver added workers, an expansion of workers in city hospitals (from 550 and 2,385) explains most of the increase in the Indianapolis municipal work force.

In growing cities, wages rose by 20 percent, or above the national average. Lowest increases were in Los Angeles, 10 percent, and in Houston and Kansas City, both 11 percent. Wages increased from 1972 to 1974 by 32 percent in Dallas, (from \$694 to \$919) and by 30 percent in Memphis, (from \$579 to \$752). Both cities' wages were below the national city average in 1972. Thus, the wage differential between growing and declining cities narrowed somewhat between 1972 and 1974.

New York City increased its municipal labor force (other than education) from 247,600 to 260,300 between October 1972 and 1974, or by 5.1 percent. At the same time, average monthly wages increased by 11 percent, from \$961 to \$1,064. These two factors increased the annual payroll from \$2.9 billion in the fall of 1972 to \$3.4 billion in the fall of 1974.^{23/}

As shown in Table 13, payroll outlays for local services, which make up about 70 percent of the local operating budget, increased on a per capita basis, by 23 percent in growing cities and 17 percent in declining cities. Based on historical relationships, it is reasonable to assume that other local operating outlays followed the pattern of expenditures for wages and salaries during this time interval.

^{23/} The inclusion of educational functions increases the city payroll from about \$4.5 billion in fiscal 1973 to \$5.4 billion in fiscal 1975.

TABLE 13

PER CAPITA PAYROLL OUTLAYS, ALL LOCAL SERVICES
EXCEPT EDUCATION, OCTOBER 1972 AND OCTOBER 1974

City Category	Number of Cities	Population (Estimated) in Thousands		Payroll Outlays* in Millions		Per Capita Outlays		
		1972	1974	1972	1974	1972	1974	% Change
Growing	13	11,181	11,305	\$1,428	\$1,776	\$128	\$157	23%
Declining	14	13,201	12,670	2,275	2,555	172	202	17
New York City	1	7,823	7,568	2,904	3,372	371	446	20

*Annual outlays based on monthly payrolls for October 1972 and 1974.

SOURCE: Bureau of the Census Local Government Employment in Selected Metropolitan Areas 1973 and 1975.

Pension fund contributions by municipalities increased almost twice as rapidly between fiscal 1973 and 1974 as did payrolls. Payments to employee retirement systems increased by more than 24 percent in this one year period. New York City contributions were a major share of all municipal government contributions nationally. Unlike the situation in most states, the contribution to teachers' retirement funds in New York City apparently excludes any state contribution.

PUBLIC SCHOOL OUTLAYS, FISCAL 1968-1975

Outlays for public schools have been excluded from the previous discussion of service costs for several reasons. Part of public school costs are borne by states and, to a lesser degree, the federal government. In some cities annexing adjoining land areas, school district boundaries are not coterminous with city boundaries. Comparisons between cities are difficult because of inconsistencies in Bureau of the Census and Office of Education data on enrollment levels and salaries. Also, school costs are generally not part of the city budget, although city resident pay at least a share of the cost.^{24/}

Still, one cannot ignore outlays for public schools. They account for about 38 percent of large-city operating outlays in jurisdictions where education is part of the city budget.^{25/} This percentage has remained stable,

^{24/} Three cities in the declining category, all with a half million or more residents, provide or subsidize higher education directly. They are Baltimore, Cincinnati, and New York. Other cities, such as those in California, have junior college districts which are not part of city budgets.

^{25/} In fiscal 1972, general revenue from local sources provided \$21 billion of the \$39 billion in total school district revenue. Chicago and Dallas both provided 56 percent of the school budget from local taxes; this is close to the national average of 54 percent.

despite a decline in enrollment between fiscal 1968 and 1973. (Of the 11 declining cities examined, only 2 city school systems, Milwaukee and Philadelphia, gained students.

Table 14 shows that, overall, declining cities had a 6 percent reduction in public school enrollment between 1967 and 1972, while growing cities had a 2 percent reduction, and New York City gained 5 percent. The aggregate number of teachers increased, although Kansas City, Detroit, Indianapolis, St. Louis, Cincinnati, and Seattle had fewer teachers in fiscal 1973 than in 1968. However, these 6 jurisdictions increased their nonteaching staffs. As a result, the total number of school system employees increased by more than 14 percent. In fact, during a five-year period, nonteaching staff expanded at more than twice the rate of teaching personnel, resulting in a student-employee ratio decrease of 12 percent in school districts of growing cities and 19 percent in declining cities.

Teachers' salaries increased more rapidly in growing districts than in declining cities during the five years, and at a faster rate than salaries for other municipal employees. However, intercity salary inequalities increased. In 1967, public school wages outside the large cities were 87 percent of the big-city average; by 1972, they had fallen to less than 80 percent of the big-city average. In declining large cities and in smaller school districts, the percentage of wage increases for teachers was less than for other municipal workers, and substantially below the level of nonteaching school personnel. With the exception of those in large cities, the negotiating positions of teachers appear to have weakened, probably as a result of the teachers surplus in the labor market. Thus, while the average monthly wage of all municipal workers in fiscal 1968 was 76 percent of the teacher level, it increased to 82 percent by fiscal 1973.

TABLE 14
NUMBER OF SCHOOL EMPLOYEES IN CITIES AND THEIR MONTHLY WAGES
OCTOBER 1967 AND OCTOBER 1972

City Category	Number of Cities	Enrollment ^a (in thousands)		Percent Change	Number Teachers		Percent Change	Total Staff (in hundreds)		Percent Change
		1966-67	1971-72		1967	1972		1967	1972	
Growing ^b	11	1,777	1,741	-2	82,341	89,186	8	1,209	1,348	12
Declining ^c	11	2,209	1,902	-6	90,992	100,214	10	1,376	1,604	17
New York City ^d	1	1,080	1,129	5	53,311	60,904	14	N/A	N/A	-
All other School districts	17,237	39,963	41,999	5	N/A	N/A	-	N/A	N/A	-

City Category	Number of Cities	Pupils Per Teacher		Percent Change	Pupils Per Total Staff		Percent Change	Teacher Salaries ^f		Percent Change
		1967	1972		1967	1972		1967	1972	
Growing	11	21.6	19.5	10	14.7	12.9	12	\$717	\$1,066	49
Declining	11	22.3	19.0	15	14.7	11.9	19	871	1,224	41
New York City	1	20.3	18.5	9	N/A	N/A	-	749	1,222	63
All other districts	17,237	N/A	N/A	-	N/A	N/A	-	678	\$ 939	38

a. For cities where Office of Education data are available, enrollment data are for Fall 1967 and Fall 1972. For other cities, Bureau of Census enrollment data for October 1967 and October 1971 are used. All other data in Table 4 are for October 1967 and October 1972.

b. Excluded are: Honolulu, and Memphis.

c. Excluded are: Baltimore, Boston and Buffalo.

d. New York City data, except wages, are from Office of Education sources. Only classroom teachers included are for this city.

e. All school districts which are not part of city budgets are included.

f. Average monthly wages. Annual wages may not be 12 times monthly average.

SOURCES: Bureau of the Census, 1967 and 1972 Census of Governments, 1968 and 1973; and Office of Education, Digest of Educational Statistics, 1967 and 1973.

Among nonteaching school personnel, wages in declining cities increased at the same rate as in growing cities. The combined effect of more personnel and higher wages resulted in a 73 percent increase in per-pupil outlays for salaries of school personnel in growing cities. This compares with a 79 percent increase in declining cities between fiscal 1968 and fiscal 1973.

Pension programs for teachers in many states are managed by the state. Since both the school district and the state frequently contribute, the municipal contribution per teacher may be lower than for uniformed personnel.

Although municipal employment for functions other than education was reduced slightly in declining cities between fiscal 1973 and 1975, education services did not follow this pattern. Employment increased in most of the 12 school systems in declining cities for which there are comparable data. Payrolls increased by 20 percent, from \$183 million per month to \$219 million. At the same time, enrollment declined by 6 percent.

By contrast, education payrolls in the 10 school systems in growing cities for which data are available increased by only 12 percent, from \$132 million per month to \$148 million, while enrollment decreased by about 5 percent.
26/

Most of the payroll increase in declining cities is attributable to five school systems, shown in Table 15. These systems had monthly teacher wage increases of 15 percent, from \$1,264 to \$1,458, and they added about 7,000 employees. The New York City payroll for educational functions

26/ The decrease in enrollment does not take into account independent school districts in areas annexed by growing cities. For example, both Houston and San Antonio have, in areas annexed since the 1950s, a large number of independent school districts. Inner city school districts have mostly minority students while districts in annexed areas are predominately white. In October 1975 the Houston Independent School District students were 42 percent black and 20 percent Mexican-American.

increased by 30 percent, matching San Francisco as the city with the highest percentage increase in payrolls.^{27/}

While education, as noted previously, is partially funded by nonlocal sources, there is little doubt that increased expenditures for education in the early 1970s contributed to the fiscal problems of declining cities in the mid-1970s.^{28/}

CAPITAL OUTLAYS AND LONG-TERM DEBT

In fiscal 1973-74, growing cities spent \$61 per capita, declining cities \$73, and New York City \$195 for capital improvements.^{29/} Capital outlays in large growing cities were approximately the same as in all smaller cities nationally during the fiscal year.

Interest payments on general debt, which represent repayment of previous capital commitments, were \$16 per capita in growing cities, \$21 in declining cities, and \$66 in New York City. All municipalities in the nation spent an average \$15 per capita on interest payments, somewhat less than large cities. During fiscal 1974, cities with 500,000 or more residents issued \$3.1 billion in long-term debt, or \$96 per capita, and retired only \$1.4 billion of previously issued debt. Cities with 50,000 to 100,000 residents issued \$0.7 billion, or \$43 per capita, and retired \$0.3 billion of previous debt.

^{27/} The 30 percent increase in New York City education payrolls, combined with the payroll increases of other departments, brought the New York City payroll from \$583 per capita in fiscal 1973 to \$719 per capita in fiscal 1975.

^{28/} Payroll outlays nationally comprise 76 percent of public school operating budgets. Therefore, payroll changes closely reflect changes in total expenditures.

^{29/} In fiscal 1973, growing cities spent \$55 per capita, declining cities \$60, and New York City \$149. New York City may have used part of its capital budget for operating outlays.

In fiscal 1974, cities with 1 million or more residents (including New York) were responsible, on a per capita basis, for \$549 in long-term "full-faith-and-credit"^{30/} debt. By contrast, cities in the 50,000 to 100,000 population group had outstanding debts equal to only \$176 per resident.

In fiscal 1974, declining cities had an average "full-faith-and-credit" debt of \$351 per capita, or 59 percent more than the \$221 in growing cities. The New York City debt was \$1,031 per capita.^{31/} Since the declining cities' rate of borrowing has increased more rapidly than their revenue, and because interest rates rose substantially during the last 5 years, a higher percentage of these revenues must be set aside to meet debt service requirements. Even in the absence of additional borrowing, per capita debt levels would be rising as the result of population losses sustained by declining cities.

Why have aging cities incurred so much debt? A number of explanations appear feasible. One factor is more school construction in declining cities; this activity comprises 9 percent of their capital outlays, compared to only 1 percent in growing cities.^{32/} It is more expensive to provide equivalent facilities in large, high-density cities than in large but less densely populated urban centers. The reason is substantially higher wages in

^{30/} These are general obligation bonds, repaid directly from local tax collections. These are in contrast to revenue bonds, which are repaid from various user charges.

^{31/} Growing cities have more debt for utilities per-capita than declining cities. Revenue bonds, repaid from user charges, are the usual borrowing mechanisms for such utilities by water and sewage facilities.

^{32/} The absence of capital outlays in a city budget does not necessary reflect the absence of school construction. In many cities, such as Los Angeles, the school capital budget is part of an independent school board authority.

construction trades and higher land costs in the former cities. For example, construction wages in New York City are 15 percent above the average of all large cities, while they are 17 percent below the average in Houston and Jacksonville, one reason it is 180 percent more expensive, on a per-square-foot basis, to build a public school in New York City than in Houston [17]. Furthermore, in older cities, much of the infrastructure, including schools, utilities, and roads are obsolete and require upgrading, although the level of consumption may be stable or even declining. The cost of rebuilding in older high density cities is substantially higher than in other areas.

Core cities such as New York, San Francisco, and Washington, D.C. maintain large-scale public transit systems. Not only are operating revenues from transit fares insufficient to repay the capital investment, but all these systems require large operating subsidies.

Some older cities have issued bonds to construct low- and moderate-income housing since subsidized housing appears to be in more critical demand in declining cities because a larger percentage of their residents are below the poverty level, and more of the existing housing is considered substandard. Other bond uses include proposals such as the Yerba Buena Commercial Center in San Francisco, for which the city plans to issue \$210 million in local bonds. If the issue is backed by the taxpayers of the city, it would add about \$340 per capita to the already high debt level caused by financing the BART transit system.

A few cities have issued short-term bonds to meet deficits in operating expenditures because of shortfalls in revenue. Between 1970 and 1971, short-term city debts increased by almost \$2 billion because the economic downturn reduced anticipated revenue. In the following two years, a number of cities, such as Cincinnati, Ohio, had fiscal surpluses and reduced short-term debt.

A rise in short-term borrowing was expected again in calendar 1975.

These and related factors imply that per capita debt service in declining cities will be increasing, while the cost of borrowing is likely to rise, reflecting the weak fiscal posture of many cities--notably New York. ^{33/}

ABILITY OF PAY FOR SERVICES, REVENUES, AND TAXES

Municipal spending patterns have been shown, stressing difference between large and small cities and between expanding and declining cities. What about the revenue out of which cities meet these expenditures?

To understand the revenue side of the picture calls first for a look at differences in the ability of local populations to pay for city services. Ability to pay is examined in the light of four criteria--per capita income and property value, cost of living, and proportion of local taxes paid by nonresidents. Then actual revenue trends and tax rates are discussed, along with the importance of revenue sharing, again with a special focus on differences between large growing cities and large declining cities.

INCOME, PROPERTY VALUES, AND THE COST OF LIVING

Per capita money income is one measure of a city's ability to pay for local services, as shown in Table 16 [18]. During 1972, per capita money income in growing cities averaged \$4,011, or about 7 percent above the level of declining cities. Between 1969 and 1972, income increased in growing cities by 22 percent, and in declining cities by 18 percent.

The total per capita value of real property that is subject to local property taxes is another measure of a community's taxable wealth. This

^{33/} At the time this report is written, the New York City fiscal solvency issue remains unresolved and its effect on other cities and the State of New York unknown.

TABLE 16
ABILITY TO PAY FOR LOCAL SERVICES

City Category	Per Capita Money In- come, 1972a	Per Capita Market Property Value, 1971b		Cost of Living, Fall 1972c		
		Residential	Industrial and Commercial	Total	Housing Total Income Taxes Paid by Households	Total Budget
Growing (13 cities)	\$4,009	\$6,777	\$2,507	\$9,284	\$2,123	\$1,231
Declining (14 cities)	3,760	5,524	3,682	9,206	2,344	1,468
New York City ^d	4,309	7,863 ^d	5,797 ^d	13,660	2,916	1,787
						\$11,160
						11,808
						13,179

a. Bureau of the Census, Population Estimates and Projections P-25, 1974 and 1975.

b. Bureau of the Census, 1972 Census of Governments, Volume 2, Parts 1 and 2, 1973.

c. Intermediate budget for four-person family in metropolitan area of city, in the autumn of 1972, U.S. Department of Labor, Handbook of Labor Statistics, 1974. Only income taxes paid directly by households included.

d. Adjusted for differences in effective tax rate between residential and non-residential property.

figure does not differ substantially between the two categories of cities (see Table 16). However, there is substantial intercity variation within each group. Among growing cities, total per capita values in 1971 ranged from \$4,797 in Jacksonville to \$12,064 in Los Angeles. Among declining cities, Baltimore with \$4,116 per capita ranked lowest and San Francisco with \$15,697, the highest, surpassing New York City. Both Chicago (\$12,309) and Seattle (\$13,186) ranked among declining cities substantially above average.

A number of declining cities, notably Chicago and Milwaukee, managed to increase their commercial and industrial property to more than 50 percent of all assessable property. However, other cities, particularly Cleveland, St. Louis and Baltimore, had minimal property value increases in the commercial-industrial sectors. A major difference between declining and growing cities is their share of commercial and industrial property. In 1971, only 27 percent of the property base in growing cities was composed of nonresidential property, while about 40 percent of the taxable property base was commercial and industrial in declining cities.^{34/} The difference is the result of two factors: low-density growing cities have a smaller concentration of commercial property and a higher property value per residential housing unit.

The cost of living for a typical household during 1969 was higher in declining cities than in growing cities.^{35/} Between 1969 and 1973, the cost of living in declining cities increased by 32.7 percent, in the growing cities by 30.7 percent, and in New York City by 39.7 percent. More than 70

^{34/} In New York City, commercial and industrial property made up 48 percent of all assessed property subject to the local property tax.

^{35/} Cost of living data is collected for total SMSA. The cost of shelter in central cities may be below the SMSA average, while taxes per capita are usually higher than in balance of SMSA.

percent of the differential among city categories in the cost of living are attributable to two items: the cost of shelter and income tax payments. For example, a family of four with an intermediate standard of living required, in 1972, \$3,281 for shelter in Boston, a declining city, and \$2,916 in New York City, but only \$1,629 in Houston and \$1,789 in Dallas, both growing cities (see Table 16).

These differences in the cost of housing are in turn partly attributable to the 25 percent higher effective property tax rates in declining cities, and also to the higher expenditures for fuel in the same cities. The prototype family in 1972 spent \$1,979 in income taxes (federal, state, and local) in Boston, \$986 in Nashville, and \$970 in Dallas. These differences are attributable to the absence of state income taxes in some states and the use of local payroll or income taxes in only two cities in the growing category.

In terms of the cost of food, transportation, clothing, and personal care, the variation between growing and declining cities is relatively small.

A fourth criteria of a locality's ability to pay for public services is the proportion of local taxes paid by or shifted to noncity residents. Property tax data by residence of property owners and data on the proportion of payroll taxes or sales taxes paid by commuters are not generally available; it is thus not possible to estimate with any reliability the local tax share paid by nonresidents. However, one can estimate the direction of differences between growing and declining cities.

Since declining cities have a greater share of commercial and industrial property, it is likely that a more substantial and larger percentage of their property tax is paid by nonresident property owners and consumers than in growing cities. Income or payroll taxes are primarily levied by declining cities, and based on one survey, about 30 percent of this tax is paid for by

nonresidents [19]. In large cities, perhaps 15 percent of sales and user taxes are paid for by shoppers, tourists, and other nonresidents.

An order of magnitude estimate of the local taxes shifted to nonresidents in fiscal 1973 would be about 10 to 15 percent in growing cities, 22 to 29 percent in declining cities, and about 25 percent in New York City.^{36/}

Of the four criteria specified, lower income and higher cost of living in declining cities reduce their ability to pay for local services, as compared to growing cities. Greater nonresidential property wealth and the tax structures of declining cities places these cities at a small advantage. However, the declining private employment base brought about by the expansion of shopping centers and office and industrial employment in suburban and exurban areas has reduced the economic importance of many declining cities. Thus, the ability to export taxes is being reduced in many cities which are losing manufacturing and other employment.

CITY REVENUE SOURCES AND TAX RATES

While city expenditures have risen, so have city revenues. These revenues are from both local sources (taxes, charges, and fees) and intergovernmental sources (federal and state).

Large declining cities increased the per capita revenues generated from their residents and business firms between fiscal 1965 and fiscal 1973 by

^{36/} Assumptions used to arrive at these estimates are shown in Appendix C. Excluded from this computation are taxes imposed by other communities but paid by city residents. For example, probably as many city residents shop and pay sales taxes in the suburbs as suburban residents purchase goods in the city.

For a detailed discussion of methodologies to estimate the shifts of city tax burdens, see also Greene, et al., Fiscal Interactions in a Metropolitan Area, The Urban Institute and Lexington Books, 1974.

113 percent, a more rapid rate than the 95 percent increase in large cities with growing populations. Since per capita income and wealth in declining cities were not rising as rapidly as the revenue from cities' own sources, certain tax rates, charges, and fees obviously had to be increased.

This pattern of rising tax rates in declining cities can be seen clearly. Property taxes provided, in fiscal 1973, 56 percent of all local tax revenue in growing cities, 61 percent in declining cities, and 57 percent in New York City. As shown in Table 17, effective tax rates on residential property increased by 22 percent in declining cities between 1966 and 1971. Among the 14 declining cities, 10 have higher tax rates, three have lower rates, and one has no change.

Per capita property tax payments, as shown in Table 17, are 44 percent higher in declining cities than in growing ones, reflecting, in part, differences in tax rates. Differences are also attributable to higher outlays in three declining cities--Baltimore, Boston, and Buffalo--which pay for public schools directly. Memphis, a growing city, and New York also include public schools outlays in their budget.

Between 1966 and 1971, the declining Northeast cities of New York and New Jersey continued to increase their effective property tax rates, reaching the highest levels in the nation. For example, Trenton's rate was 6.4 percent, Newark's 5.8 percent, and Buffalo's 4.2 percent of market value. These three cities include education in their municipal budgets.

Among the ten growing large cities for which comparable data are available, 6 had lower tax rates and 2 had no changes. Two of the growing cities, Los Angeles and Dallas, deviated from this pattern and had higher tax rates in 1971 than in 1966.

TABLE 17

RESIDENTIAL PROPERTY TAX
RATES AND PAYMENTS

City Category	Number of Cities	Effective Property Tax Rates ^a		Percent Change 1966-1971	Per Capita Taxes On Residential Property 1972-1973 ^b
		1966	1971		
Growing Cities	10	1.81	1.73	-4	\$52 ^c
Declining Cities	14	2.06	2.52	+22	75
New York City	1	2.00	1.80 ^d	-10	151

a. Single-family housing only. The "effective rate" (regardless of the stated local rate) represents the total tax payment as a proportion of the current market value of the property, averaged citywide.

b. Tax payments based on tax revenue from residential property adjusted for differences in assessment ratios between residential and non-residential property, as shown in 1972 Census of Govern-

ments.

c. Thirteen cities.

d. The effective tax rate on non-residential property is 2.0 percent.

SOURCES: Bureau of the Census, 1967 and 1972 Census of Governments, Volume 2; and Bureau of the Census, City Government Finances in 1973-74, 1975.

The value of an average single-family home increased 48 percent between 1966 and 1971 in growing cities, but only 27 percent in declining communities. Part of the difference is attributable to such factors as reduced demand for housing, and to the capitalization of property tax increases, which tends to suppress property values. Jacksonville, San Diego, and Honolulu, with low tax rates but rapidly growing populations, had the highest increases in average house value. Cleveland, Pittsburgh, St. Louis, and Buffalo had only ^{37/} small increases in the value of residential property during this time period.

The income or payroll tax is a major local funding device in declining cities, accounting for 21 percent of their local tax revenue. ^{38/} In the case of payroll taxes, part of the burden is shifted to commuters.

During fiscal 1968, seven of the 14 declining cities imposed taxes based on earnings or total income, with an average rate among the 7 cities of 1.25 percent. By fiscal 1973, the same cities increased their average rate to 1.83 percent, a 46 percent boost. ^{39/} Only 2 of the 13 growing cities, Columbus and Kansas City, imposed such taxes in fiscal 1968. This number remained unchanged in 1973, although the rates increased in both cities to an average of 1.25 percent. New York City had the sharpest increase, with rates ranging

^{37/} Cities with growing populations added more new units to the housing stock. Because the selling price of new housing is typically 10 percent or more above the average of existing housing, one would also expect the average unit price in these cities to be rising in value independently of tax rate changes.

^{38/} In growing cities, income taxes in fiscal 1973 accounted for only 5 percent of local tax revenues, while in New York City they accounted for 19 percent.

^{39/} Pittsburgh eliminated its city income tax as of January 1, 1973. Since this date, the tax applies only to the Pittsburgh school district.

from 0.4 to 2 percent in 1968 and advancing to a range of 0.7 to 3.5 percent by 1973.^{40/}

The more rapid increase in income-based taxes and other revenue sources, compared to property taxes, reflects the preference of declining cities for broadening their tax base as revenue requirements accelerate.

The amount of revenue received by a local jurisdiction from the State and Local Fiscal Assistance Act of 1972 (federal revenue sharing) provides a proxy for relative tax effort for functions other than education. Per capita income is part of the aid formula, but it is only slightly lower in declining than in growing cities. Thus the major difference in the level of aid among communities reflects another feature of the formula--tax effort. In fiscal 1974 the thirteen growing cities received \$18 per capita, compared to \$28 per capita for declining cities. New York (one of the cities which is also a county) had the third highest per capita payment--\$35.

Among growing cities, per capita aid varied from \$9 received by San Diego to \$31 by Denver. Per capita revenue-sharing funds in growing cities were equal to the average for all cities. Among declining cities, there is less variation. Twelve cities received between \$22 and \$31. The two cities which received the most aid, \$39 per capita, were Boston and New Orleans.

There is substantial variation in the percentage of funds that revenue sharing represents of total tax revenue raised by a city from its own sources. In San Diego, the \$7 million received from revenue sharing accounted for only

^{40/} Among cities imposing local income taxes, the tax in Baltimore does not apply to commuters, while commuters to Detroit and New York City have lower rates than city residents. Income taxes apply to incorporated business in most cities examined in this report, except Cincinnati and Philadelphia.

10 percent of tax revenue raised by the city, while the \$24 million received by Boston was only 8 percent of local taxes in fiscal 1974. By contrast, revenue sharing is 28 percent of local tax revenue in New Orleans and 24 percent in Pittsburgh. In New York City, the \$267 million in revenue sharing represents only 6.2 percent of local taxes.

Intergovernmental transfers, generally used for noncommon services, contributed significantly to the ability of cities, particularly those with 200,000 or more residents, to finance rising expenditures. While locally generated taxes in all cities increased from \$80 to \$140 per capita and all local revenues from \$82 to \$145 between fiscal 1965 and 1973, transfer payments from the state and federal government increased from \$30 to \$118. As a result, transfer payments as a share of total city operating revenues increased from 22 percent to 38 percent during the eight-year period. Welfare payments, which accounted for 38 percent of all state aid to large cities in fiscal 1965, absorbed 43 percent of this aid in fiscal 1973 among large cities, while highway aid accounted for a reduced share of state funds.

The proportion of total revenue for public schools from state and federal sources varies considerably. In states where per-pupil property value is a major factor in the state aid formula, declining cities frequently receive less basic aid than other areas of the state with higher per capita income or per capita property wealth. The reason is that declining cities generally have high per-pupil property value because of low school enrollment as a percentage of their total population. However, a number of states, such as Maryland and Pennsylvania, provide additional funds to central cities based on such criteria as the level of poverty or high population density.

In most cities, property taxes are levied on city residents and firms by fiscally independent school districts.^{41/} In a few cities, such as Buffalo, part of a countywide sales tax is redistributed to city school districts. In Virginia, one-third of the state sales tax is redistributed to city and county schools, based on the number of school age children. In most cases, this form of redistribution provides city schools with less funds than if cities directly levied a city sales tax. For example, the city of Richmond receives only about 50 cents of each sales tax dollar that the state collects in the city used for education.

Between fiscal 1973 and 1974, intergovernmental revenue received by cities continued to grow more rapidly than revenue from their own sources. However, the rate of state revenue increase diminished, from an increase of 16 percent between fiscal 1972 and 1973 to only 7.9 percent the following year; this was the lowest rate of increase since 1962, with the exception of fiscal 1969 and 1970.^{42/} Thus, the growth was attributable to the federal government, a result of an additional \$743 million in revenue sharing and \$345 million in other funds. Local tax revenue increased only 5.2 percent and property tax revenue only 3.1 percent.^{43/} An additional \$394 million in

^{41/} In cities with multiple school districts, tax rates for schools will differ, since each school district determines its own revenue needs.

^{42/} Between 1969 and 1970, state aid increased by 7.6 percent.

^{43/} One factor for lower property tax receipts are legislative changes. For example, the 1973 Ohio state income tax legislation requires that real property tax assessments levied on residential property be reduced by 10 percent. Property taxes on owner-occupied housing are reduced by 40 to 70 percent if the occupants are 65 years old or over and have an annual income of less than \$10,000. The state reimburses the cities' property tax losses which result from these state-mandated tax relief measures.

current charges (reflecting fiscal surpluses between 1972 and mid-1974) contributed more additional local revenue than did the increases in property, sales, and gross receipt taxes combined.

While only partial data are available, property tax collections in both growing and declining cities were not substantially higher in fiscal 1975 than in the previous fiscal year. Honolulu, for example, shows an increase of only 1.7 percent, Jacksonville 0.3 percent, Baltimore 4.4 percent, San Francisco 6.5 percent, and New York City 4.9 percent [20]. State sales tax collections, which closely parallel local sales tax receipts, were down 5.3 percent in Michigan, down 3.1 percent in Indiana and up only 0.7 percent in New York. This data suggests that many declining and some growing cities in 1975 experienced minimal or no revenue growth from their own or state sources, except for transfer payments such as welfare, which are to a considerable extent federal payments channeled through state government.

V. FISCAL DIFFERENCES BETWEEN DECLINING AND GROWING CITIES

Large growing cities, as shown in the previous part of this report, typically spend less for public services on a per capita basis than cities of similar size which are declining.

Operating outlays account for more of the differences than fixed outlays. However, fixed outlays, such as current capital expenditures and those reflected in nonutility long-term debt levels, are substantially higher in declining cities. Pension fund liabilities also appear higher in these cities and future reductions in public employment will not reduce these fixed commitments, which are based on current and previous levels of employment.

The major factor contributing to higher operating outlays in declining cities is personnel: more workers and higher wages. For common services where service quality does not appear to vary in terms of output measures, declining cities employ more workers per capita. To a lesser degree, these cities offer higher wages for workers with similar backgrounds.

A second factor is that some declining cities, particularly New York City, provide more services, such as health care, than their growing city counterparts.

The combination of higher debt, higher wages, more generous benefits, and more employees per capita clearly adds up to higher per capita outlays and a higher share of personal income allocated for local services in declining cities. Though the above are contributing factors, it is more difficult to find causes for the higher outlays. For example, the extent to which such factors such as types of structures, daytime and resident population density, age of private and public structures, and socioeconomic differences compare in importance with political factors and union strength is not known. No doubt all these elements, many closely interrelated, have a role.

There appears to be a positive relationship between the physical characteristics of a city and its fiscal status. Physically, it is easy to distinguish sprawling, rapidly growing jurisdictions such as San Antonio and San Diego from Cleveland or Detroit. The sprawling cities, with the exception of a small inner core, are essentially groups of contiguous, low-density communities, consisting of relatively new housing stock, similar in appearance to the outer suburbs of many industrial centers of the Northeast or Great Lakes regions. There is an absence of intensive commercial development at the urban center. Regional shopping centers dominate retail trades, as in the suburbs of Northern cities. Presumably due to density and socioeconomic differences, the frequency of crime and fire is lower in these areas. ^{1/} There is less traffic congestion and fewer people needed to control traffic. These and other lower service demands reduce the absolute number of people providing these services.

Growing cities are politically consolidated as the result of many small annexations of suburban areas, which lower the proportion (but not the number) of low-income households that generally remain concentrated in the older housing stock near the center. ^{2/} These annexations, however, do not substantially increase the outlays for most labor-intensive services with the exception of fire protection. This is true not because there are significant economies of scale in the provision of services but because of lower

^{1/} The number of building fires in declining cities was 5.5 per 1,000 residents compared to 4.2 per 1,000 in growing cities. St. Louis had 10.3 fires per 1,000, San Antonio only 2.9 per 1,000.

^{2/} For example, the area annexed by Richmond comprises 19 percent of the population but includes less than 3 percent of all welfare residents and only 5 percent of all adults arrested for crimes.

average use of public safety, health and other noneducational services than are found near the urban core. Annexation is usually the result of a carefully planned action to "capture" middle income residents who are leaving the urban core or immigrating from other areas. Perhaps more important, it absorbs large areas of open land (population density in annexed areas frequently is as low as 150 persons per square mile), where future expansion is most likely to take place.

From a fiscal perspective, annexations are beneficial to the core jurisdiction, usually because per capita outlays for services are relatively lower. [21] Additional capital needs are frequently met by shifting some costs to the developers, by the issuance of city revenue bonds, or by the formation of special taxing districts in the annexed area, reducing "full faith and credit" obligations. However, since annexation can be fiscally disadvantageous to the area being absorbed, both economic considerations and social concerns, such as school busing, may result in less intensive annexation in future years.

The extent of sizable future annexation will probably depend more on judicial and political than economic decisions. Denver, which forms one contiguous school district, is effectively prevented from annexing as the result of a constitutional amendment. The support in Texas for the Municipal Annexation Act of 1963 which provides for extraterritorial jurisdiction and allows large scale annual annexation is partially based on the formation of independent school districts in annexed areas, allowing a choice of school districts for residents within incorporated city boundaries. A U.S. Supreme Court decision which would require that annexed or consolidated areas be part of the central city school district would no doubt erode support for the present legislation.

The importance of annexation is illustrated by Dallas, which annexed only 5 square miles between 1970 and 1973. Net outmigration from the city during this time interval exceeded 55,000 persons.

Independent of annexation patterns, the gap in per capita service outlays between the large growing cities in the 1960s and those identified as declining is expected to narrow slowly as a result of a combination of forces. Cities such as Boston, Detroit, and New York are now taking and will continue to take drastic action to reduce outlays--actions considered politically unpalatable only a few years ago. Because reducing employment is almost a prerequisite for achieving fiscal balance in the absence of higher taxes, cutbacks in employment (some temporary but many permanent) are now taking place. Among the 14 cities identified as declining in the 1960s, the majority reduced the size of their local work force between fiscal 1973 and 1975. Among declining cities, Chicago in 1971 adopted a package of higher taxes on consumers and business to pay for the expanded public sector. Most other cities, however, have been unwilling to impose additional taxes.

In the growing city category, outlays are bound to continue rising, in part to catch up with service demand. The demand is mounting for higher wages and improved benefits as municipal employees, many recently unionized, act to reduce intercity and interregional wage differentials.^{3/} This is particularly true in Southern cities where municipal wages lag behind other regions.^{4/}

^{3/} Between 1970 and 1974, three-quarters of the total increase in union and employee association membership, representing 800,000 workers, consisted of public sector employees.

^{4/} The average wage for city workers in all Southern cities in October, 1972 was \$641, or 38 percent less than the \$884 paid to municipal employees outside the South.

The city manager of a large Texas city has recently stated that "experience has shown that collective bargaining generally results in increased expenses to a city." [22] This may explain why support for collective bargaining is not strong. Since 1974, Texas cities can undertake bargaining with representatives of police and fire departments if a majority of city residents approve. Voters rejected bargaining in the two largest cities of the state; first in Dallas (November 1974) for police officers, followed by Houston (March 1975) for fire department personnel. However, San Antonio, the third largest city, approved collective bargaining in two referendums, one for each service. As of October 1975, 12 cities rejected collective bargaining, three approved bargaining for fire personnel only, while six gave their approval for both police and fire personnel [23].

It is almost axiomatic that large cities at some point stop growing, particularly in a nation where the population has stabilized, with birth and death rates nearly equal. Without further annexation, the process of aging has begun to catch up with cities like Los Angeles and Denver which have no further annexation prospects; they are beginning to exhibit some of the undesirable characteristics previously observed in declining areas. Yet both cities, despite outmigration in the 1970s, are continuing to expand municipal employment.

The historical pattern leaves little to the imagination. Large cities in the Northeast and Midwest--Baltimore, Boston, Chicago, Cleveland, Cincinnati, Detroit, Philadelphia, Pittsburgh, and St. Louis--reached their population peak around 1950. Cities further South and West--Milwaukee, New Orleans, Seattle, and San Francisco--had their maximum population at or about 1960. Richmond and Los Angeles, no longer able to annex large areas, probably reached their population peaks in 1970.

While the process of growth and subsequent decline is likely to affect additional cities, this is little comfort to those areas already declining. Their political strength at the metropolitan, state, and federal level diminishes as their percentage of the total voting population decreases.^{5/} Specifically, legislators representing declining city constituents are less able to pass legislation aimed at providing additional state or federal funds for those areas. It could be argued that as the population in the large older cities declines, the rest of the nation would be more willing to provide additional aid to ease the fiscal burdens of transition, since fewer persons needing aid would be involved. However, there is little evidence to support such a hypothesis.

SHARE OF INCOME ALLOCATED FOR LOCAL SERVICES

The fact that declining cities spend more for similar local services compared to growing cities becomes important if declining cities must allocate a higher proportion of personal income for these services.

The linkage between personal income, revenue from city sources, and expenditures for primarily local services illustrates the fiscal differences between city categories. Specific comparisons, however, are limited by the availability of income data at the city level for only two recent years, 1969 and 1972. Moreover, differences in service quality are obscured, and the percentage of local taxes and service charges exported to noncity residents is difficult to estimate.

^{5/} In 1950, the 14 large declining cities, plus the City of New York, comprised 15.2 percent of the nation's population. In 1973, these cities included less than 9.7 percent of all the nation's residents.

With these limitations in mind, one approach to the income-revenue-expenditure linkage is to compare per capita outlays for similar services as a percentage of income for fiscal 1970 and 1973, as in Table 18.

Between 1969 and 1972 money income in growing cities increased by 22 percent, but outlays for local services went up by 59 percent (from 3.1 percent to 4.0 percent of money income). Among declining cities, income increased by only 18 percent and outlays by 51 percent--from 5.4 percent of money income in 1969 to 6.9 percent in 1972. New York City had a lower income growth than most cities and a 42 percent increase in outlays. While outlays generally increased somewhat more slowly in declining cities than in growing cities, this development was offset by lower income growth.

This method is useful for comparing the change in the cost of similar services over time, but it does not fully take into account differences in the share of local and nonlocal revenue allocated for specific services which may vary among cities.

An alternative approach is to compare city taxes and service charges as a share of local income, as shown in Table 19. These data produce a pattern similar to the previous table, although the rate of per capita local revenue increase is somewhat lower than the rate of service cost increases shown in Table 18. This shows an increasing share of nonlocal revenue, such as federal revenue sharing funds, were allocated for local services.

This table also includes estimates of local taxes and service charges paid by local residents and local firms, taking into account the ability of cities to shift some of the tax burden to nonresidents.

Examining the incremental changes between fiscal 1970 and 1973, one finds that per capita ~~money income~~ ^{REVENUE} in growing cities increased by \$52, or 7.2 percent of the increment in income. Referring back to Table 18,

TABLE 18
OUTLAYS FOR LOCAL SERVICES AS A PERCENTAGE OF INCOME

City Category	Number of Cities	Per Capita Income		Percent Increase	Per Capita Outlays for Common Local Services		Percent Increase	Outlays as Percent of Income	
		1969	1972		1969-70	1972-73 ^b		1969	1972
Growing	13	\$3,283	\$4,011	22%	\$102	\$162	59%	3.1%	4.0%
Declining	14	3,187	3,760	18	171	258	51	5.4	6.9
New York City	1	3,698	4,309	17	256	363	42	6.9	8.4

SOURCES: Per capita money income data from: Bureau of the Census, Population Estimates and Projection P-25, 1975; Expenditure data from Bureau of the Census, City Government Finances, 1969-70 and 1972-73, 1971 and 1975.

a. Operating outlays less education, hospitals, housing and urban development and welfare.

b. Revenue sharing funds in 1972 covered about 8.9 percent of common outlays in growing cities, 8.6 percent in declining cities, 8.3 percent in New York City.

TABLE 19
CITY TAXES AND SERVICE CHARGES AS A PERCENTAGE OF INCOME

City Category	Number of Cities	Per Capita Money Income		Percent Increase	Per Capita Revenue ^a City Sources		Percent Increase	Local Revenue as Percent of Income		Percent Income ^b Paid by Residents for Services
		1969	1972		1969-70	1972-73		1969-70	1972-73	
Growing	13	\$3,283	\$4,011	22%	\$125	\$177	42%	3.8	4.4	3.9
Declining	14	3,187	3,760	18	214	288	35	6.7	7.7	5.8
New York City	1	3,698	4,309	17	455	669	47	12.3	15.5	11.6

a. Local Revenue collected by cities is directly used to pay the local share of education in Baltimore, Boston, Buffalo, Memphis, and New York City.

b. Estimates based on share of city taxes and services likely to be paid by nonresidents. For discussion of methodology to estimate taxes paid by residents and nonresidents, see Appendix C.

expenditures for local services increased by \$60, or 8.2 percent of income. Table 19 shows that, in declining cities, per capita income increased by \$573 while revenue went up \$74, or 12.9 percent of the increase in income. Operating outlays for local services (Table 18) increased by \$87, or 14.8 percent of the income increase.

New York City had the lowest percentage of income increase--from \$3,698 to \$4,309--but also had an increase in local revenue collection of \$214 per capita, or 35 percent of the rise in per capita personal income. Expenditures for local services increased by \$107 or 17.5 percent of the income increase. The New York City budget includes outlays for public schools and higher education and the city pays a higher share of health care and welfare services from its own revenue than other jurisdictions. These factors account for New York's larger share of locally raised revenue as a percent of income as compared to most cities.

Table 20 shows differences in per capita income and outlays per capita between cities in the 200,000 to 500,000 population range and the larger cities (500,000 or more residents). Among the latter, local services in fiscal 1973 accounted for 5.6 percent of income. For cities with 200,000 to 500,000 residents, such services made up 4.7 percent of income.

The differences in the fiscal capacity of growing and declining cities appear to be increasing, while service costs remain substantially higher in the declining cities. The inability to consolidate with or annex adjoining areas is a major factor in higher service costs. ^{6/} One should not, however,

^{6/} The effect of consolidation on the cost of services can be illustrated by a hypothetical merger of St. Louis City and St. Louis County. The City in fiscal 1975 had annual payroll outlays for local services including education of \$500 per capita. If the two areas merged and present wages in each jurisdiction remained, combined per capita payroll outlays would average \$351. If the higher city wage rate prevailed, payroll outlays would be \$375 per capita, or 25 percent lower than the present city average if present service levels are maintained.

consider all declining cities as having equally difficult fiscal problems to resolve. For example, although Cincinnati, Seattle, and San Francisco face continuing outmigration and minor reduction in private jobs, the ability of these cities to provide public services is considerably better than that of Cleveland, Buffalo, St. Louis, and New York. This ability can be attributed to political decisions taken a number of years ago to curtail expenditures and differences in the regional economies of the first three localities.

The most serious problem in declining cities is the loss of income. This loss reduces the cities' ability to pay for services and places undue burdens on the remaining residents. At the same time, the demand for many services remains constant or, in some instances, even increases.

Most large declining cities are located in the manufacturing belt extending from the Middle Atlantic to the Great Lakes. Many of these states also face outmigration of people and loss of manufacturing and construction jobs from their smaller cities. In most of the manufacturing states, the majority of municipalities with 50,000 or more residents are losing population. For example, of 21 Massachusetts jurisdictions in this category, 17 show a population loss between 1970 and 1973. In Pennsylvania, 17 of 19 cities with 50,000 or more residents lost population, while 14 of 20 such cities in Michigan had fewer inhabitants in 1973 than in 1970.

The extent of outmigration from both small and large central cities in these states, and the secondary fiscal effects of that movement, reduce the ability of state governments to provide substantial aid to all declining urban areas without weakening their own fiscal posture.

VI. FISCAL PROSPECTS FOR AGING
METROPOLITAN AREAS AND THEIR CENTRAL CITIES

The aging metropolis faces a continuing problem of outmigration of middle-income households and business firms from its core city, while economic growth in the balance of the metropolitan region is insufficient to offset the loss of central city and inner suburban income and employment.

As shown in this report, the cost of providing public services in aging cities is substantially higher than in either the balance of their own SMSAs or in growing cities. Until very recently, most aging cities have attempted to maintain the level and scope of public services initiated during periods that were more economically favorable. These actions, combined with rising payrolls, resulted in higher tax burdens, possibly contributing to the loss of middle-income families and jobs.

During 1973, considerable optimism was expressed in regard to the future fiscal posture of local government. The Tax Foundation suggested that most localities, except for some large, aging cities, would have fiscal surpluses [24]. The same theme was echoed by Netzer, who stated that a combination of factors would "make the fiscal crisis seem a thing of the past to many state governments, as well as a fair number of suburban and small city governments." [25] While it was recognized that some large cities would continue to have fiscal difficulties, the rate of expansion of the local urban public sector in comparison to the private sector was not conceived as a general problem.

The optimism regarding the fiscal posture of all but a few large jurisdictions appears premature. The sharp national economic decline since early 1974 caused fiscal problems in even the most affluent communities, such as

Montgomery County, Maryland. While the revenue-expenditures imbalance in wealthy communities would appear to be temporary, this is not the prospect for the aging metropolis. Energy-rich states such as Oklahoma and Texas were able to reduce state taxes in early 1975, reflecting revenue increases twice the national average in 1974. The short-term outlook for Michigan, New York, and Ohio is more bleak. At both the state and local level, public sector workers were being furloughed, job openings lost through attrition remained unfilled, and wage increases were reduced or eliminated. Massachusetts, with a deficit in fiscal 1972, may have a \$793 million deficit in 1976 unless taxes are raised [26].

Outmigration from the urbanized Northeast and North Central states, which began prior to the 1974 economic downturn, appears to be continuing. While the general economic slowdown can be expected to reduce the number of households migrating, the long-term trend appears to be a continuing loss of people and jobs from these states to the South and parts of the West. From a fiscal perspective, the adverse effect of migration on personal income growth in the aging urban centers is a serious problem, and one which is independent of the national business cycle.

Between the mid-1960s and early 1970s, net outmigration of people and private sector jobs did not constrain a substantial expansion in public employment and wage increases. State and local employment gains in some cities offset, but to only a small degree, reduced employment in the private sector. This expansion was possible to a considerable extent because of rising state and federal aid for social services and education, which released funds for locally-funded municipal services. As stated by the comptroller of New York, the city responded to federal inducements for a host of new and costly programs by adding thousands of employees, while "massive borrowing seemed to carry

little risk, as the ebullient economy was presumed to be on the course of an endless boom" [27]. Higher tax rates appeared more acceptable because real income was rising and inflation was pushing up both property values and property tax revenues.

Conditions which allowed rising intergovernmental transfers at the federal or state level are not likely to be present in the coming years. In California it became apparent that electing a "liberal" Governor Brown to follow a "conservative" Governor Reagan would not necessarily result in an expansion of the public sector.

State governors and legislators are reluctant to increase income or sales tax rates, or even to permit local governments to levy or increase these taxes, which are the major source of state revenue.^{1/} While gasoline, cigarette, alcoholic beverage, selected business, and "nuisance" taxes will be rising, the additional funds generated will not be sufficient to increase aid in constant dollars to local communities in most states. Some states, such as Virginia, imposed an across-the-board reduction in aid to local jurisdictions in mid-1975. For example, state school aid was cut by 5 percent.

The federal government, faced for the time being with massive deficits, is more likely to continue to fund public employment on a temporary basis, rather than directly increase the level of aid to declining cities. Because of structural changes in the economy, real income is expected to rise only slowly. This will be reflected in federal income tax revenues, and the lack of dramatic expansion of these funds will thus limit the ability of federal

^{1/} In early 1975, revenue from income, sales, and gasoline taxes in most states increased only slightly. Some states show absolute declines from the previous year's revenue levels.

agencies to provide large scale additional aid to declining cities without interfering with other programs.

If this prognosis is correct, older metropolitan areas have two obvious choices--to increase local taxes or reduce outlays. Higher local taxes are likely to be viewed as fiscally counterproductive, since they would encourage further outmigration of middle-income households and business firms, an already well-established pattern in a number of urban areas. The pressure will therefore continue toward reductions in the number of local employees, suppression of their wage increases, or both. This would follow the pattern set by Pittsburgh and St. Louis, which managed to reduce the size of their municipal work forces in the late 1960s as their populations decreased. Wages for teachers, particularly in the older cities, may increase more slowly than for other municipal employees, reflecting the oversupply of teachers and the increasing bargaining power of nonprofessional municipal workers.^{2/} Such actions could adversely affect minority groups, which generally benefited from the expansion of the public sector.

What about the demand for public services? Except for social services, which are increasingly being recognized as the responsibility of states and the federal government, service demands in the aging metropolitan areas will decline for education (except in cities with substantial international migration), increase for public safety, and remain stable for most other municipal functions. Local government, faced with severe revenue constraints,

^{2/} Between October 1973 and October 1974, the total number of all school personnel employed by counties was reduced, reversing a long trend, although the number of teachers alone increased slightly. Wages per teacher remained constant for the first time in a decade or more.

will have to select priorities and decide what services to reduce rather than what services to expand.

Public education is a service which will have difficulty keeping its traditional share of local budgets, as the benefits of higher outlays for schools are increasingly questioned by local officials. Increases in police department personnel can be expected to continue in response to higher crime incidence in all parts of metropolitan areas. There will also be attempts to pay for more services from user charges, which may be at least a minor source of additional revenue. These charges require specific beneficiaries of certain services to bear more of the cost; they may also involve payment for previously "free" services, which tends to reduce demand.

It is probably unrealistic to expect less resistance to higher local taxes on the part of the producers of private goods and services, even when the business cycle moves upward. One reason for this is the recognition that wages in the public sector have outpaced those in the private sector, particularly in aging metropolitan areas. Keeping in mind the difficulty of precise comparisons, one may consider weekly earnings of production and other nonsupervisory workers on private nonagricultural payrolls as a measure. Wages of these workers increased from \$102 weekly in 1967 to \$144 weekly in 1973, an increase of 41 percent. On a monthly basis, this is equal to \$442 in 1967 and \$624 in 1973. By comparison, monthly wages for all municipal workers (full-time and part-time) averaged \$488 in 1967 and \$751 in 1973, an increase of 54 percent. The wages of workers performing common municipal functions increased from \$543 in 1967 to \$865 in 1973, or 59 percent.^{3/}

^{3/} Between 1965 and 1970, annual wages of all private industry using national income account data from the Department of Commerce, increased from \$5,708 to \$7,462, or 31 percent. In the public sector, wages increased from \$5,717 to \$7,965 or 39 percent.

Wages for municipal employees performing common functions increased only one percentage point more than increases among unionized building, printing, and local trucking workers--occupations for which annual wage data is maintained in metropolitan areas. If wage increases for these occupations are typical of other industries, then wage increases among municipal workers performing public safety and sanitation functions are closely parallel to those of skilled labor union members.^{4/}

It may be argued that public sector wage increases reflect "catching up" with the more unionized private sector, or that differences in the skill mix make comparisons questionable, but much of the public is not swayed by these arguments. This is shown by public opposition to municipal employee strikes reflected in the recent San Francisco election. Municipal wages, given the current public mood, are not likely to increase more rapidly than private wages.

Public employment has frequently been suggested as a means to increase the general employment level, and possibly to offset the reduction of private jobs in declining cities. At the city level, it appears that the decline in private employment was only minimally offset by a growth in municipal jobs. The cities of Boston, Philadelphia, St. Louis, and San Francisco lost 84,000 private jobs between 1970 and 1973, a period of expanding employment at the national level. The total gain in public jobs was about 3,000 in these cities. New York City lost at least 244,000 private jobs, while public jobs increased by about 20,000. These examples illustrate that the extent of losses in private employment could not have been offset by municipal jobs.

^{4/} There have been substantial increases in productivity in both building trades and printing. Unfortunately, there is little evidence of similar productivity gains in the public sector.

Given the general economic and fiscal situation in the cities noted, it is likely that the number of both private and municipal jobs may be reduced during calendar 1975.

The older metropolis cannot reverse in the coming years some of the conditions causing its fiscal problems, such as outmigration of middle-income families, although some adverse effects can be mitigated. To attract middle-income families back to declining cities, socially controversial positions would have to be adopted, such as modifying long-standing public education policies, including busing, and curtailing locally-financed programs that assist poor people. The political feasibility of these actions is questionable, as their implementation would project an image of cities turning their backs on minorities and low-income households.

These views may be overly pessimistic. Could recent income and migration patterns be aberrations, to be reversed in a few years, leading to a revival of the aging urban core? Or can the high cost of energy lead to such a reversal? While there is evidence that some previously blighted neighborhoods in major cities are being rejuvenated by an influx of young, middle-class households, this reverse movement appears to be of insufficient scale to offset the outflow from other city neighborhoods. Between 1970 and 1974, the number of whites in suburbs of large SMSAs increased by 5.6 percent and the number of blacks by 14.4 percent. One out of five blacks living in suburbs in 1974 moved from a central city since 1970. This suggests that both white and black middle-income households are moving out of central cities.^{5/}

^{5/} The proportion of persons below the poverty level and residing in central cities increased between 1969 and 1973. The number of blacks in central cities increased by 6.3 percent between 1970 and 1974, while the number of whites decreased by 5.1 percent. The number of persons below the poverty level, however, declined in both cities and their suburbs.

Perhaps a rejuvenation is imminent, but in the absence of innovative policies at the national and regional level, or major structural changes in the economy, such a reversal of present trends is unlikely at least during this decade.

VII. FINDINGS AND POLICY OPTIONS

Regional shifts in population, employment, and income will be an increasing economic problem for many aging metropolitan areas in the Northeast and Northcentral states. The economic well-being of many large central cities within these metropolitan areas will continue to be directly affected by these shifts.

While a loss in population by itself does not necessarily point to severe fiscal difficulties, it appears to be an indicator of future problems. A sharp increase in net outmigration--10 percent or more during a five-year period--is a danger signal.

The data examined here strongly suggests that the cost of public services, if regional wage differences are taken into account, are strongly influenced by population change and size. Among large cities, those growing in population tend to have lower service costs than declining cities. Growth is the result of annexations or consolidations which incorporate middle income households residing primarily in owner-occupied housing within city limits. Annexed area households utilize social services less intensively than inner city residents, while their income is above the city average. Therefore, given the same tax effort, more non-business revenue per capita accrues to the city. Declining cities have an aging housing stock and are losing households with characteristics similar to those gained by cities annexing their suburbs.

Despite scale diseconomies in the provision of most services which result from population levels beyond 100,000 or so residents annexation is a preferable option to losing middle income families. While many suburbs have the policy option to grow or to maintain a smaller population, most central

cities able to annex have taken this action. The economic argument for these policy decisions can be illustrated by San Antonio. If the boundaries of this city included only its 1944 land area of 36 square miles in 1975, it would have a population composition similar to one of the disadvantaged aging cities in the Northeast. Unfortunately, cities with the most severe fiscal problems in the mid 1970s do not have the option to spatially expand or to maintain their present boundaries. Voluntary consolidation with their suburbs does not appear to be, in most instances, a politically feasible alternative, since most suburban residents appear opposed to a voluntary merger.^{1/} The formation of metropolitan taxing districts for such regional services as water and sewerage treatment or mass transit, has the advantage of a broader tax base and regional planning. However, such taxing districts provide little fiscal benefit to central cities.

Policy options which follow are grouped into actions cities can take, and those involving higher levels of government. Even the most efficient municipal management probably could not have halted the outmigration of middle income households from Cleveland, Newark, or St. Louis. In other cities, swollen municipal payrolls, which increased the tax burden differential between the central city and other areas, has probably contributed to the reduced level of economic activity. The major regional changes taking place which will result in the majority of Americans living in the South and West by 1977 or 1978 are, however, beyond the control of city or even state governments.

^{1/} This was demonstrated by the Colorado referendum to prevent further annexation by Denver, attributable by many to the school busing issue.

POLICY OPTIONSCITY GOVERNMENTS

An expansion of present payrolls by more than a few percent will require, in most declining cities, a tax increase in the absence of additional revenue from state or federal sources. An alternative to tax increases are higher local fees (such as charges for certain educational and health programs, or increased charges for business licenses). The major argument against many higher service charges and fees is that they increase the burden of low income households or drive business firms from the cities. Although service charges are increasing in many cities, it is unlikely that this revenue source can be sufficient to balance local budgets if past expenditure increases continue. A temporary alternative is to trim capital budgets by postponing projects. In many cases, however, capital commitments cannot be terminated without substantial cost. Direct action to reduce the municipal work force appears to be the alternative selected by many declining cities. Reducing the work force can have adverse effects. Among these are the following:

- As a result of contractual agreements, the most recently hired city workers are usually laid off first. While this is also the case in the unionized private sector, the impact may be more severe in the many municipal functions that are dependent on physical agility. The older, less physically capable workers in cities are generally assigned responsibilities in office jobs or at locations which require less physical strain. When the proportion of younger members of the police, fire, and sanitation departments is sharply curtailed, those laid off cannot be easily replaced by older workers. The efficiency or productivity of these departments thus tends to be reduced more sharply than the numerical reduction of the workforce would indicate.

- If older workers with higher wages are asked to retire early, this may place an excessive burden on retirement fund reserves. If such reserves are exhausted, the locality's general revenue funds would have to be used to meet additional pension payment demands, thus reducing monies intended for the operation of basic city services.

- Many salaries of local public servants are paid in part from matching federal funds, as in the case of persons who help provide health care and related services. Thus, if such employees are released, only part of the salary savings accrues to the city.

- A disproportionate number of minority workers are likely to be affected by layoffs, with both social and political consequences that will be difficult to manage.

To what extent local service quality would suffer as a result of fewer workers is difficult to measure for such services as public safety. Studies on the impact of additional police on crime levels are inconclusive. Most likely, minor traffic accidents and minor crimes would not be investigated, while the response time to emergency calls may be delayed. Similarly, the response time to fires would be longer if some fire stations are shut. Fewer people per station could delay the time it takes to control a fire, but presumably additional crews could be called in from other stations to mitigate this problem.

A reduced frequency of street maintenance, trash collections, or hours that health clinics are open would produce more visible effects of fewer employees.

There is little if any evidence to show that a somewhat higher teacher-pupil ratio affects the ability to learn, although there is public preference for small classes, based on the belief that more individual instruction can

be provided. There is no doubt, however, that a drastic cut in the number of teachers would require some revision of instructional methods.

Whether reductions in the scope and quality of service would result in more outmigration of households and business firms is difficult to estimate. Business firms are the direct recipients of relatively few services, primarily limited to public safety and transportation, and thus are less likely to be affected by fewer services than are households. Middle-income households would be most concerned over reductions in the level of public safety, while families who send their children to public schools would be most concerned about the impact of reductions on school quality. However, insufficient funds, as measured by per pupil outlays, has not been identified as a major cause for problems in city school systems. ^{2/}

One difficulty in discussing the impact of reducing the workforce is that studies on the effect of reductions in outlays for public services are very limited.

Pittsburgh is one city which has been curtailing its employment, payroll, and debt for a number of years. The city has 7,034 workers in 1970, 6,120 in 1972, and 5,751 in 1974, a decline of over 18 percent, compared to a population decline of about 10 percent. The reduction included 189 members of the police force during an interval when almost all cities were expanding police departments. The city also reduced sharply its outstanding debt, and repealed its 1 percent income tax in 1973. Not known are the results of this change in terms of service quality, but the reductions appear to be satisfactory to the electorate.

^{2/} Most declining central cities have higher per pupil outlays than their suburbs, due to higher wages, special programs for the disadvantaged, and other factors.

Cincinnati is also among a small group of cities which appear to have stabilized the cost of public services without apparent major adverse effects.

The degree to which local economic and political forces enabled some declining cities to maintain a balance between service demand and ability to pay requires further analysis which examines both short-term and long-term effects of such policies.

SHORT-TERM STATE AND FEDERAL OPTIONS

A cost-saving action by local government in some cases may be insufficient to prevent serious fiscal consequences such as default. Therefore, interim measures by state or federal agencies may be necessary until the national economy is stabilized. While cities are, in a sense, wards of the state, the fiscal situation in some states, including Massachusetts and New York, is such that federal intervention may be necessary. Some of the following actions, for instance, could aid declining cities.

1. BOND GUARANTEE

One approach to aid declining cities with high per capita debt would be a form of federal guarantee for a share of outstanding bonds. This share would be equal to a proportion of the combined percentage loss in private employment, population, and the annual level of unemployment above the national 1970-1973 average of 4.9 percent. A number of large cities have a declining population and employment base, reducing their ability to meet the cost of previously undertaken capital outlays, and would thus qualify for the guarantee. ^{3/}

^{3/} If revenue sharing is to continue, part of future city receipts from this source could also be used as a guarantee.

Cities with particularly high per capita debt levels include the most well-known case, New York City, which in fiscal 1974 had \$7.9 billion in longterm "full-faith-and-credit" bonds (including \$2.7 billion in utility bonds), \$3.7 billion in short-term bonds, and an additional \$1.9 billion in long-term nonguaranteed bonds. The "full-faith-and-credit" bond debt was equal in 1974 to \$1.032 per capita. Philadelphia has also added substantially to its short and long term debt. Some smaller central cities have debt levels close to those of New York City, as in the cases of Stanford, Connecticut (\$1.047 per capita) and Wilmington, Delaware (\$974 per capita).

Such a scheme would guarantee the holder of a "full-faith-and-credit" bond payment of a share of its face value at the time the bond is due, but not before 1980, if the local and state government was unable to meet the ^{4/} payment that time.

The use of these criteria would guarantee bond holders about 25-35 percent of the value of New York City bonds, or about \$2 billion. Similarly, Philadelphia would receive a guarantee on about 22-25 percent of its "full-faith-and-credit" bonds. Only bonds issued prior to 1975 would be subject to this partial guarantee.

A share of short-term bond obligations, based on the previous criteria, would be converted to long-term bonds. The interest rate would reflect the current average interest rate of municipal bonds. Since holders would not be paid until 1980, this would reduce windfall profits to those who, for example, purchased discounted New York City notes during 1975. An alternative would be to require that interest be subject to the federal income tax.

^{4/} The reform of city finances to balance the local budget, to maintain and adequate local services, and to adjust pension plans, should be a state rather than a federal responsibility. Thus, municipal pension and bond guarantees would be federal-state agreements.

2. PENSION FUND OBLIGATIONS GUARANTEE

Pension fund obligations by New York City in fiscal 1974 totaled \$788 million, or over \$100 per capita. In Detroit, fund obligations in fiscal 1974 were \$117 million, or \$84 per capita. Despite these high payments, both systems appear to be underfunded. It is therefore recommended that a partial federal guarantee of pension payments be provided to municipal workers retired prematurely as a fiscal economy measure, if a city cannot meet its payroll obligations. However, the city would have to agree to reform its pension plan in order that city and employee contributions are adequate, from an actuarial analysis, to meet future withdrawal requirements. Such long overdue reform in many cities would result in either reducing pension payments, or substantially increasing the level of payments by cities to pension funds.

3. REVISE REVENUE-SHARING FORMULA

Revenue-sharing requirements should be modified to increase maximum payments to local jurisdictions from the existing ceiling of 145 percent of the state per capita allocation to no ceiling or a ceiling of 180 to 190 percent of that allocation. Based on an analysis by the Brookings Institution, five of the fourteen declining cities would have received from 17 percent to 75 percent more in revenue-sharing funds in 1972 in the absence of the 145 percent rule. At the same time, no growing city would lose more than 18 percent by eliminating the statutory requirement [28]. The city of Richmond, for example, would have received an additional \$3.3 million, or 52 percent more than its fiscal 1975 allocation in the absence of the ceiling.

The ceiling was intended to assure that no one community would receive too large a share of the total funds given to a state. A redistribution of funds to Richmond and one other large Virginia city, would reduce aid

primarily to suburbs and some rural areas. In none of these cases examined would additional funds to any large city (on a no-ceiling basis) cause other communities in the same states (those that are presently unaffected by the ceiling) to obtain less than 80 percent of their present payments. ^{5/}

4. REVISE MATCHING AID FORMULAS

Federal and state matching aid formulas should be used to encourage efficiency by maintaining the level of aid if the local work force partially paid from matching funds is reduced as a result of fiscal constraints. That is, total payroll payments to the city should be maintained if the work is curtailed. Funds not used for salaries by the city would be shifted to other program functions. In effect, savings from payroll would be used to pay a share of matching city funds for direct aid to recipients in the case of social programs.

LONG TERM FEDERAL OPTIONS

1. INCREASE FEDERAL EMPLOYMENT AND CONTRACTS IN DECLINING URBAN REGIONS

Federal facilities should be encouraged to locate in areas undergoing a decline in the private sector. In New York State, which had an absolute loss in private jobs in recent years, federal nonmilitary payrolls were only 2.0 percent of the state's nonfarm income in 1969. The percentage in Illinois was 2.2, and in Ohio 2.4, compared to 4.3 percent in Arizona, 5.4 percent in Colorado, 8.7 percent in New Mexico, and a national average of 3.5 percent. The trend since 1969 has been to increase the gap between growing and declining states, in terms of the proportion of personal income resulting from federal and military payrolls. Similarly, federal contracts for military products are concentrated in growing areas.

^{5/} These results are based on a limited sample.

The present allocation of federal personnel and federal contracts encourages economic growth in areas which are growing as a result of private sector expansion. This may be one factor, although probably not a major cause, for outmigration from declining areas.

2. CONTROL ILLEGAL IMMIGRATION

The large concentrations of nonagricultural illegal aliens in many of our central cities, particularly those along the coastline, are an additional fiscal burden to city residents. ^{6/} The absence of strong national legislation to prosecute those hiring illegal aliends has contributed to the inflow of these persons. In the absence of stronger federal legislation restricting this inflow, additional federal aid aimed at social services should be provided to those cities where the proportion of illegal aliens is estimated to be more than 5 percent of the total population.

^{6/} The Department of Justice estimated in 1975 that there were 1.5 million illegal aliens in the New York City area, and an additional 300,000 in the Newark, New Jersey area. In November 1975, a study indicated a total of 8 million aliens nationally.

APPENDIX A 1/ INTRAMETROPOLITAN COST DIFFERENTIALS

This paper has focused on fiscal differences between growing and declining urban areas. However, there are substantial intrametropolitan differences, particularly among central cities, inner suburbs, and outer suburbs. The major differences are in the areas of employment and wages, as discussed below.

EMPLOYMENT DIFFERENTIALS

Substantially more workers are needed to perform public services in central cities, particularly large declining cities, than in their suburbs. For example, in St. Louis City 14 workers per 1,000 population are needed to perform common services, as defined in Table A-1, but 6.2 workers can perform the same services adjoining St. Louis County. Differences in the number of workers per capita are greatest in public safety functions--7.1 per 1,000 in the city, 3.0 in the county--and in parks and recreation. 2/ Only one service, highway maintenance, requires more workers per capita in the suburbs than in the central city.

St. Charles County, which is part of the St. Louis SMSA's outer fringes, employs only 4 workers per 1,000 residents to perform common services. The

1/ For a more detailed discussion of intrametropolitan differences, see Thomas Muller, "The Cost of Public Services as a Function of Size and Location," presented at the Public Choice Society Annual Meeting (Chicago, April 1975).

2/ Differences in parks and recreation expenditures can be attributed to two factors: (1) the greater need to provide more open space and public recreational facilities in cities, particularly for lower-income households; and (2) the fact that cultural and recreational facilities in central cities are patronized by suburban as well as city residents.

average size of the public safety staff in this county is 1.6 persons per 1,000 residents.

A pattern similar to the one observed in the St. Louis metropolitan area is seen in the Philadelphia SMSA. Providing common services requires 13.3 persons per 1,000 residents in the city, 4.7 persons in adjoining Montgomery County, and 4.0 people in Bucks County. Police protection requires 5.0 persons per 1,000 in the city and 1.5 persons in each of the two suburbs. The use of volunteer fire-fighting units in suburbs means that few paid workers are necessary to provide this service, while the city of Philadelphia employs 1.6 persons to provide fire protection for each 1,000 residents.

Financial administration and general control requires 2.4 persons per 1,000 in Philadelphia, 1.1 persons in Montgomery County, and 0.9 in Bucks County. This difference may reflect a broader scope of services provided by the central city, perhaps combined with lower efficiency there.

An examination of several other Northeastern and North Central metropolitan areas, including Cleveland and Detroit, shows similar relationships between the number of city and suburban municipal workers per capita.

Table A-1 shows that, except for Dallas, personal income is highest in the inner counties of the metropolitan areas and lowest in the central city. However, wages for municipal workers are considerably higher in central cities and lowest in the outer suburbs. Although central cities, as noted previously, are able to "export" some of their taxes to suburbs and other areas of the nation, net taxes for both business firms and individual households nevertheless are probably lower in the suburbs of Northeastern and North Central cities, thus providing an inducement for outmigration. The affluent homeowners in suburbs also can offset a greater part of their tax burden as federal income tax deductions than city residents of similar income who are most likely to be renters.

TABLE A-1

NUMBER OF MUNICIPAL WORKERS, WAGES, PERSONAL INCOME AND DENSITY, 1971-1972
(Selected Central Cities and Their Suburbs)

Area	Number of Workers (Common Functions) ^a per 1,000 Residents	Average Monthly Wage For Municipal Workers (Other than teachers)	Personal Income Per Capita (1972)	Population Per Square Mile (1970)
Philadelphia City	13.3	\$907	\$3678	14,581
Montgomery County	4.7	\$646	\$5204	1,267
Bucks County	4.0	\$581	\$4096	715
St. Louis City	14.0	\$722	\$3292	9,311
St. Louis County	6.2	\$641	\$4750	1,906
St. Charles County	3.9	\$507	\$3550	188
Dallas City	10.0	\$694	\$4432	3,068
Dallas County (balance)	8.3	\$632	\$4349	902
Rockwell County	7.9	\$491	\$3560	48

a. These functions include highways, police and fire protection, parks and recreation, libraries, financial administration, sewage, and other sanitation.

SOURCES: Bureau of the Census, Local Government Employment in Selected Metropolitan Areas 1971-1972, 1973; and Bureau of the Census, Population Estimates and Projections, Series P-25 and P-26, 1975.

In growing cities and their metropolitan areas, disparities in the number of workers in the central city and outer suburbs who are performing similar services are comparatively small, as illustrated in the Dallas SMSA. Unlike the pattern in declining SMSAs, per capita income in the growing areas' central cities is somewhat above the level of the inner suburbs.^{3/} As in the declining urban areas, however, wages for municipal workers are lower in the suburbs than in the core city.

Public-sector employment level differentials between central cities and their suburbs are attributable partially to the socioeconomic characteristics of the population within older metropolitan areas. In addition, the high daytime population in many central cities, generated by the concentration of commercial activity, increases the demand for some services.

WAGE DIFFERENTIALS

Wage differentials between central cities and suburbs are more difficult to explain than levels of employment. As shown in Table A-2, wages for teachers in three inner suburban communities of large SMSAs ranged from 88 percent to 95 percent of the central city average in 1967. Wages for municipal workers showed somewhat less variation. However, in the three metropolitan areas, wages both for teachers and other local employees went up more rapidly in central cities than in suburbs, increasing the salary gap between 1967 and 1972.

There also are differences in wages earned by municipal workers and the private sector. In Philadelphia, average private wages are 73 percent of municipal wages, while in the SMSA private wages are 82 percent of municipal

^{3/} This is attributable primarily to annexation of suburban areas in such cities as Dallas, Houston, San Diego, and San Antonio.

TABLE A-2
MONTHLY LOCAL GOVERNMENT WAGES IN SELECTED AREAS, OCTOBER 1967 AND OCTOBER 1972

TEACHERS

Area	Central City		Number	Inner Suburbs ^a		Percentage Change	Inner Suburb as Wages Percentage of Central City	
	1967	1972		1967	1972		1967	1972
Detroit	\$1,042	\$1,565	7	\$988	\$1,269	29%	95	81
Chicago	836	1,383	5	735	1,098	49	88	79
Los Angeles	1,000	1,472	8	904	1,189	32	90	81

MUNICIPAL WORKERS

Area	Central City		Number	Inner Suburbs ^a		Percentage Change	Inner Suburb as Wages Percentage of Central City	
	1967	1972		1967	1972		1967	1972
Detroit	\$662	\$1,047	8	\$652	\$995	53%	98	95
Chicago	678	1,053	8	611	929	52	90	88
Los Angeles	795	1,152	8	735	1,032	40	93	90

a. Same county as central city

SOURCE: 1967 and 1972 Census of Governments, Volume 3.

^{4/} Similarly, in Suffolk County, which includes Boston, average private wages are 76 percent of those earned by municipal employees, while in the Boston SMSA, they are 82 percent of the municipal worker average.

Cost-of-living differences have been cited as one factor for higher wages in large metropolitan communities. It is unlikely, as noted previously, that there are substantial intrametropolitan variations in the cost of living. The most reasonable explanation is the ability of workers, particularly in aging central cities, to negotiate higher wages and improved benefits than their counterparts in suburbs, reflecting greater monopoly power and possibly more adverse working conditions.

^{4/} Municipal wages for October 1972, private wages for those covered by Social Security in March 1972 (from County Business Patterns). There is some evidence that during 1974 wages in suburbs increased more rapidly than in central cities, reversing the previous pattern.

APPENDIX B
(Tables 1 through 4)

TABLE B-1
NUMBER OF MUNICIPAL WORKERS AND THEIR WAGES IN
CITIES WITH GROWING POPULATIONS BETWEEN 1960 AND 1970

City	Number of Municipal Workers ^a		Percentage Change 1972-1974	Monthly Wages All Municipal Employees ^b		Percentage Change 1972-1974
	Oct. 1972	Oct. 1974		Oct. 1972	Oct. 1974	
Columbus	6,052	6,271	3.6%	\$ 801	\$ 957	19.5%
Denver	9,347	12,222	30.7	727	923	21.3
Indianapolis	7,869	9,988	26.9	660	751	13.8
Honolulu	7,730	7,520	-2.8	828	995	20.2
Jacksonville	8,833	9,562	8.3	693	828	19.6
Kansas City	6,461	6,258	-3.2	831	926	11.4
Los Angeles	42,689	44,560	4.4	1,147	1,261	10.0
Houston	11,520	11,937	3.6	722	817	10.9
Dallas	12,894	13,078	1.4	694	919	32.4
San Antonio	9,359	10,356	10.7	718	834	16.2
Memphis	10,653	11,463	3.4	579	752	30.3
Phoenix	6,159	6,932	12.6	781	1,004	28.6
San Diego	6,856	6,801	-0.8	953	1,129	18.5
New York City	247,624	260,278	5.1	961	1,064	10.7

a. Excluding education.

b. Excluding teacher salaries.

SOURCE: Bureau of the Census, Local Government Employment in Selected Metropolitan Areas and Large Counties: 1972 and 1974, 1973 and 1975.

TABLE B-2
NUMBER OF MUNICIPAL WORKERS AND THEIR WAGES
IN CITIES WITH DECLINING POPULATIONS BETWEEN 1960 AND 1970

City	Number of Municipal Workers ^a		Percentage Change 1972-1974	Monthly Wages All Municipal Workers ^b		Percentage Change 1972-1974
	Oct. 1972	Oct. 1974		Oct. 1972	Oct. 1974	
Boston	17,162	15,352	-10.3%	\$ 809	\$1,016	25.6%
Buffalo	7,082	6,957	- 1.8	910	941	3.4
Cleveland	12,596	13,260	5.4	880	1,006	14.3
Cincinnati	9,658	10,157	5.2	644	792	23.1
Baltimore	23,073	22,556	- 2.2	655	769	13.5
Chicago	45,236	44,416	- 1.8	970	1,107	14.1
New Orleans	10,952	10,168	- 7.2	571	638	11.7
Detroit	26,572	27,017	1.7	1,024	1,163	13.6
Philadelphia	36,952	37,124	4.7	948	1,064	12.3
San Francisco	20,943	21,482	2.6	1,068	1,145	7.2
St. Louis	14,094	13,497	- 4.3	758	868	14.5
Seattle	10,475	9,120	-13.0	917	1,078	17.6
Milwaukee	9,388	9,699	3.3	1,004	1,062	5.8
Pittsburgh	6,120	5,751	- 6.0	731	863	10.5

a. Excluding education.

b. Excluding teacher salaries.

SOURCE: Bureau of the Census, Local Government Employment in Selected Metropolitan Areas and Large Counties: 1972 and 1974, 1973 and 1975.

TABLE B-3

POPULATION AND LAND AREA FOR CITIES WITH 200,000
TO 500,000 RESIDENTS AND WITH GROWING
POPULATIONS BETWEEN 1960 AND 1970

City	Population (in thousands)		Percent Change 1960-1973	Land Area (square Miles)		Percent Change 1960-1973
	1960	1973		1960	1973	
Yonkers	191	196 ^a	3%	18	18	0
Albuquerque	201	273	36%	58	87	50
Atlanta	487	451 ^a	-7%	128	131	2
Austin	187	291	56%	45	91	102
Baton Rouge	152	290	91%	31	47	52
Charlotte	202	285	41%	63	76	21
Corpus Christie	168	212	26%	37	71	92
Fort Worth	356	360 ^a	1%	270	396	47
Long Beach	344	347 ^a	1%	46	49	7
Oklahoma City	324	374	15%	299	N/A	-
El Paso	277	353	27%	109	157	44
Miami	292	354	21%	34	34	-
Nashville-Davidson ^b	171	427	150%	29	426	1368
Norfolk	305	383 ^a	-7%	50	52	2
Omaha	324	377	16%	48	52	8
Portland	373	375 ^a	1%	66	93	41
Richmond	220	238 ^a	8%	38	60	58
Sacramento	192	267	39%	45	94	87
San Jose	204	523	156%	56	146	161
Tampa	275	276 ^a	—	67	85	27
Toledo	318	377 ^a	19%	48	81	65
Tuscon	213	308	45%	71	90	27
Tulsa	262	332	27%	49	176	259
Wichita	255	261 ^a	2%	51	93	82

a. Decline in population since 1970.

b. City-county consolidation.

SOURCE: Bureau of the Census, Population and Land Areas of Urbanized Areas 1970 and 1960. February 1972 and Bureau of the Census, Boundary and Annexation Survey, March 1975.

TABLE B-4
POPULATION AND LAND AREA FOR
CITIES WITH 200,000 TO 500,000 RESIDENTS AND WITH
DECLINING POPULATIONS BETWEEN 1960 TO 1970

City	Population (in thousands)		Percentage Change		Land Area (Square Miles)		Percentage Change	
	1960	1973	1960-1973		1960	1973	1960-1973	
Akron	290	262	-10%		53	54		2%
Birmingham	341	394	-13		63	80		27
Dayton	262	214	-18		34	38		12
Des Moines	209	199	- 5		63	64		2
Louisville	391	336	-16		59	59		-
Jersey City	276	255	- 8		15	15		-
Minneapolis	483	383	-21		53	53		-
Newark	405	368	- 9		24	24		-
Oakland	368	346	- 6		53	53		-
Rochester	319	377	-13		37	37		-
St. Paul	313	287	- 8		52	52		-
Syracuse	216	185	-14		25	26		4

SOURCE: Bureau of the Census, Population and Land Area in Urbanized Areas: 1970 and 1960, February 1972, and Bureau of the Census, Estimates and Projections, P-25, 1975.

APPENDIX C CITY TAXES PAID BY NONRESIDENTS

Revenue by source for growing cities, declining cities and New York is shown in Table C-1. To calculate the proportion of city taxes shifted to nonresidents, the following assumptions are made for each revenue source:

1/ PROPERTY TAX

Owner-occupied Residential Property -- all paid by residents

Rental Property and Vacant Lots -- 15 percent paid by nonresidents

Commercial and Industrial Property -- 60 percent paid by nonresidents

SALES TAX

Fifteen percent of sales tax is paid by nonresidents in declining cities and New York City, 12 percent is paid by nonresidents in growing cities.

INCOME AND PAYROLL TAXES

The proportion of taxes paid by individuals is based on the percentage commuters comprised of city residents in the area work force, and commuters to the city. It is assumed that commuters, because of their higher income than city workers, pay 25 percent more per capita in income taxes. Individuals pay 75 percent of all city income taxes, except for New York City.

Twenty-five percent of all income taxes are paid by business firms, who shift out 50 percent of the tax to nonresidents. This is true except for New York City, where 33 percent of income taxes are paid by business firms.

1/ The incidence of property taxes has been the subject of numerous articles. For an excellent review of current property tax incidence theory, see Henry Aaron "A New View of Property Tax Incidence" and discussion by George E. Peterson and others in Papers and Proceedings of the 86th Annual Meeting of the American Economic Association, May 1974.

TABLE C-1
LOCAL TAXES AND OTHER REVENUE BY CITY CATEGORY, FISCAL 1973

GROWING CITIES

Revenue Source	Amount (Millions)	Per Capita (1973 Population)	Percentage of all Tax Revenue	Percentage of All Local Revenue
Property Taxes	\$ 792	\$ 71	56.4%	39.8%
General & Selective Sales Taxes	397	35	28.3	19.9
Income & Payroll Taxes	74	7	5.3	3.7
Other Taxes	140	12	10.0	7.0
All Local Taxes	(1,403)	(80)	100.0	(70.5)
Other Local Revenue	587	52	-	29.5
Total Local Revenue	1,990	177	-	100.0

DECLINING CITIES

Property Taxes	\$1,641	\$127	61.2%	44.2%
General & Selective Sales Taxes	369	29	13.8	9.9
Income & Payroll Taxes	554	43	20.7	14.9
Other Taxes	116	9	4.3	3.1
All Local Taxes	(2,680)	(208)	100.0	(22.1)
Other Local Revenue	1,038	-	-	27.9
Total Local Revenue	3,718	-	-	100.0

NEW YORK CITY

Property Taxes	\$2,363	\$309	57.4%	46.3%
General & Selective Sales Taxes	878	115	21.3	17.1
Income & Payroll Taxes	794	104	19.3	15.5
Other Taxes	81	11	2.0	1.6
All Local Taxes	(4,116)	(539)	100.0	(80.5)
Other Local Revenue	1,002	196	-	19.5
Total Local Revenue	5,118	669	-	100.0

SOURCE: Bureau of the Census, City Finances, 1972-73, 1974.

OTHER LOCAL TAXES AND OTHER LOCAL REVENUE (FEES, FINES, USER CHARGES)

Fifteen percent of other local taxes and other local revenue are paid by nonresidents.

TAX OFFSETS

Federal and state tax offsets are not considered. The inclusion of this item would reduce the disparity in taxes paid by nonresidents in growing and declining cities, since growing cities have higher income and a higher proportion of owner-occupied residential property.

TAXES SHIFTED TO CITIES

While cities can "shift" part of their taxes to nonresidents, residents of other communities also can pass part of their taxes to other areas. For example, a petroleum refinery in Texas may shift its property tax to its consumers in Massachusetts. City residents pay sales taxes on their purchases in suburban jurisdictions, although some areas have a system to avoid this occurrence. Taxes shifted to cities are not considered in this allocation.

SHARE OF VARIOUS TAXES PAID BY NONRESIDENTS

The estimated share of taxes and other local revenue paid by nonresidents based on the above assumptions in growing cities, declining cities, and New York City is shown in Table C-2. As noted in the text, the values are only meaningful insofar as they reflect the relative ability to shift taxes.

NOTE: Data on taxes assumed to be shifted from a group of eight central cities and suburbs can be found in: Dick Netzer "State Education Aid and School Tax Efforts in Large Cities" Selected Papers in School Finance 1974, Office of Education, Washington, D.C. 1975.

TABLE C-2

SHARE OF VARIOUS TAXES PAID BY NONRESIDENTS, BY CITY CATEGORY

GROWING CITIES			
Revenue Source	Revenue Source as Percentage of All Revenue	Percentage Paid by Nonresidents	Proportion of All Revenue Paid by Nonresidents
Residential Property Tax	0.291 %	7 %	0.0204
Commercial & Industrial Property Tax	0.107	60	0.0064
Sales Tax	0.199	12	0.0239
Income Tax Paid by Individuals	0.028	39	0.0109
Income Tax Paid by Firms	0.009	50	0.0045
Other Local Taxes	0.070	15	0.0105
Other Local Revenue	0.296	15	0.0444
DECLINING CITIES			
Residential Property Tax	0.265 %	9 %	0.0239
Commercial & Industrial Property Tax	0.176	60	0.1056
Sales Tax	0.099	15	0.0149
Income Tax Paid by Individuals	0.112	38	0.0426
Income Tax Paid by Firms	0.037	50	0.0185
Other Local Taxes	0.032	15	0.0048
Other Local Revenue	0.279	15	0.0419
NEW YORK CITY			
Residential Property Tax	0.242 %	11 %	0.0265
Commercial & Industrial Property Tax	0.222	60	0.1332
Sales Tax	0.171	15	0.0269
Income Tax Paid by Individuals	0.104	9	0.0094
Income Tax Paid by Firms	0.051	50	0.0255
Other Local Taxes	0.016	15	0.0024
Other Local Revenue	0.195	15	0.0293

SOURCE: Bureau of the Census, City Finances 1972-73, 1974; 1972 Census of Governments, Volume 2, 1973.

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